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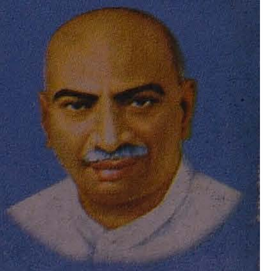

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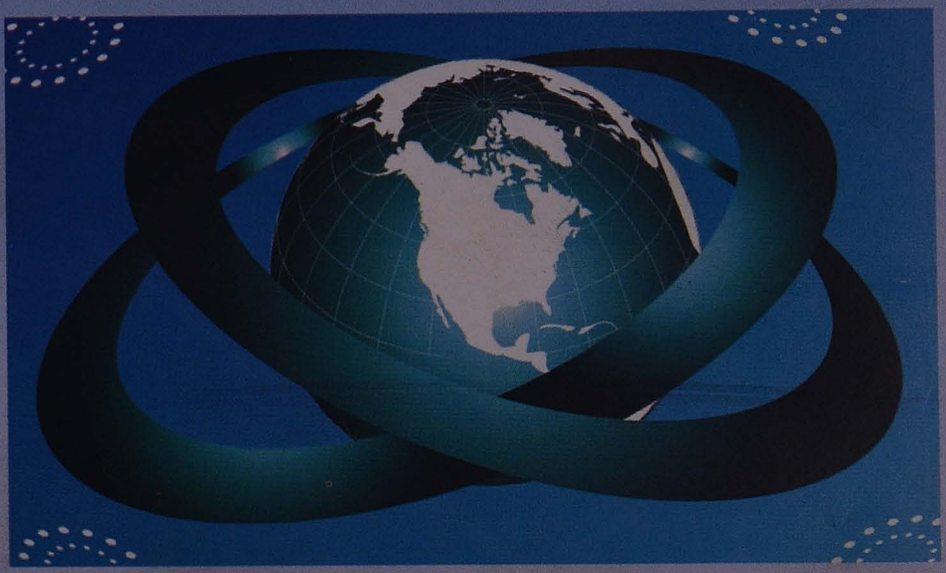

Master of Commerce
Second Year

INTERNATIONAL MARKETING

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Second Year

Group 'B'

INTERNATIONAL MARKETING

MADURAI KAMARAJ UNIVERSITY
PALKALAI NAGAR, MADURAI - 625 021.

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INTERNATION MARKETING

SYLLABUS

Unit - 1	:	Meaning - International marketing vs.Domestic Marketing Objectives of international business - International marketing decisions - Barriers to international marketing.
Unit - 2	:	International marketing environment and marketing strategy - environment social and cultural environment - political and legal environment - environment monitoring.
Unit - 3	:	Market selection and market profilling - need for market selection market selection process - Determinants of market selection - market profile - market segmentation.
Unit - 4	:	Product planning for export - Need for product planning - Marketing environment - Product strategies - Product adoption - Product standardization - Product life cycle - International marketing.
Unit - 5	:	Export Pricing - Export objectives and pricing - Marginal Cost pricing in export market - Government influence on export pricing - transfer pricing - Steps in export pricing.
Unit - 6	:	Promotion strategy - Marketing environment and promotion strategies - Influencing fact Role of advertising, trade fairs and exhibitions.
Unit - 7	:	International marketing Channel - Methods of entry in a foreign market. Indirect export - Direct exporting - Forms of direct exporting - Factors affecting channel decision - Role of export houses and trading houses.
Unit - 8	:	India's export and import policy - Traditional and non-traditional export items - Channel in the direction and composition of India's foreign trade - India and World Trade Organization.
Unit - 9	:	Export promotion - Organizational setup - Incentives - Production assistance - Market assistance - Financial facilities - Role of EXIM Bank - Export Promotion Councils.
Unit - 10	:	Export procedure - Documents to be submitted to customs authorities, Port Authorities bank licencing authorities, RBI and Export Promotion Council.

Books for Reference

1. Philip R.Cateora - International marketing
2. R.L. Varshney and B.Bhattacharya - International marketing Management
3. Francis Cherunilam - International Trade and Export Management
4. P.K. Jain - International marketing

SCHEME OF LESSONS

Lesson No.	TOPIC		Page No
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LESSON - 1

INTERNATIONAL MARKETING

STRUCTURE

1.0 Introduction
1.1 unit Objectives
1.2 Meaning
1.3 Definition
1.4 International Vs Domestic Marketing
1.5 Objectives of International Business
1.6 International Marketing Decision
1.7 Scope of International Marketing
1.8 Key Terms
1.9 Summary
1.10 Model Questions

1.0 INTRODUCTION

International marketing involves the adoption of marketing strategy that emphasises a geographic market segmentation that distinguishes between domestic and foreign markets. Not all Indian based firms choose to market their products outside India. Sher-e-Punjab Restaurant may limit its marketing to Mumbai. But Chennai based Hotel Saravana Bhavan is operating in many countries Like USA and UAE. The organisations resources or market demand justified this strategy. Many firms that is advantageous to spend considerable time and effort marketing beyond their national boundaries.

Indeed, international markets may promise higher market potential than domestic markets as shown by the following population estimates for the year 2000: USA 300 million; Mexico 126 million; Brazil 205 million; Indonesia 223 million; Pakistan 138 million; Nigeria 154 million and Bangladesh 146 Million. For Indian producers of grain and line stock, these statistics reflect both a tremendous market potential and a challenge for feeding the world. Population cannot be considered in and of itself. The population's ability and

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willingness to purchase are additional considerations. Procter and Gamble's Pampers disposable diapers, which has a 6% share of the disposable diaper market in italy, could not be expected to do as well in Bangladesh, where percapital income is very low.

Many Indian companies are heavily involved in international marketing. The Indian government encourages indian companies to enlarge their international marketing efforts. Yet other measures indicate that out degree of commitment to international marketing is very less. India is trying to achieve the magic figure of 1% yes, India's share in the global trade is less than 1%. American exports amount to slightly less than 7% of the Gross National Product (GNP) compared to trading nations such as Japan (13%), West Germany (27%), U.K. (20.5%) and Canada (29%).

The explanation for this small percentage is the result of the large and developed nature of the domestic market in india itself. No other country has such an extensive, well-developed domestic market place. Therefore, other nations have had to become involved in international marketing activities. For many, it is an absolute necessity.

There is also a major impact on the domestic economy of any nation as the volume of multinational marketing activity increases. Foreign products are imported into that country to fill needs not being satisfied by domestic manufactureres or producers. Because India cannot supply all of its oil-based needs, it must import oil from other nations. In this sense, imported products are necessary to a way of life. World trade does help some countries meet certain needs. With continued growth, world trade can be expected to raise the standard of living in many parts of the world.

1.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* Domestic Market Constrains
* International Marketing Decision
* Understand Scope and Meaning of International Marketing

1.2 MEANING

According to philip Koltar, "marketing is human activity directed at satisfying needs and wants through exchange process". To be more explicit, "Marketing means working with markets, which, in turn, means attempting to actualise potential exchanges for the purpose of satisfying human needs and wants". In this definition, there are essentially two sets of variables, namely markets and human needs and wants and a process or a set of techniques related to the conversion of potential exchanges into realised exchanges. It is clear that the techniques involved will be more or less identical in both domestic and international marketing. But the variables will be totally different in the case of international marketing.

1.3 DEFINITION

International marketing is defined as, "marketing carried on across national boundaries". According to Hess and Cateora, "International marketing is the performance of business activities that direct the flow of goods and services to consumers or users in more than one nation".

1.4 INTERNATIONAL MARKETING Vs. DOMESTIC MARKETING

There are three basic points of similarities between domestic marketing and international marketing:

1) In both the marketing success depends upon satisfying the basic requirements of the consumers. This necessarily involves finding out what the buyers want and meeting their needs accordingly.

2) To win over customers, it is necessary to build goodwill both in the domestic as well as in the international market.

3) Research and development for product improvement and adoption is necessary both fo international marketing and domestic marketing.

The differences between domestic and international marketing arise entirely from differences in national environments with in which export

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marketing is conducted, and the differences in the organisation and programmes of a company operating simultaneously in different national markets.

1) Different entry Restrictions:

As the goods and services have to move across national boundaries, they may have to face a number of restrictions. These may fall in any of the following categories.

i. Tariffs or Customs Duties:

These only make the goods costly and are not intended to ban entry of foreign goods completely. Due to the efforts of GATT, the tariffs are significantly reduced.

ii. Quantitative Restrictions:

These are mainly intended to restrict trade in specific commodities to protect domestic industries.

iii. Exchange controls:

In some cases, importers may not be allowed the necessary foreign exchange for payment of the goods.

iv. Local Taxes:

Levying these taxes is to make the foreign goods comparatively costlier than domestic goods.

2) Different Legal Systems:

Very often the legal systems followed by countries differ from each other. However, a member of countries follow English common law while several European countries follow the civil law. The East European Countries have developed their own legal system. The United Nations Commission on International Trade Law is also trying to bring about uniformity in international trade law.

3) Different Monetary Systems:

Each country hasits own monetary system and the exchange value of each country's currency is different from that of the other. The exchange rates are fluctuating and are being determined by forces of supply and demand.

4) Different Market Condition:

Each country is a separate market having its ours demand pattern, channels of distribution, methods of promotion etc. These differences are accentuated due to the existence of government controls and regulations.

5) Different Documentation and Procedures:

Each country has its own procedures and documentary requirements and traders have to comply with these regulations if they want to export to or imports goods from foreign countries.

6) Different degree of Risk:

There is a greater degree of risk involved in international marketing than in domestic marketing. The different kinds of risks are

1. Commercial risks, 2. Political risks, 3. Legal provision risks, 4. Cargo risks, 5. Credit risks, 6. Exchange fluctuations risks.

In other words, the differences between Domestic and International Marketing may be summarised as follows:

Domestic Marketing	International Marketing
1. One nation, same language and culture	1. Many nations, many languages and cultures
2. Transport cost is a major marketing expense	2. Transport cost influences only to some extent.
3. One Currency	3. Different Currencies.
4. Political environment is the same	4. Different political environments.

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INTERNATIONAL MARKETING Vs. DOMESTIC MARKETING:

1) Different entry Restrictions:
i. Tariffs or Customs Duties,
ii. Quantitative Restrictions,
iii. Exchange controls,
iv. Local Taxes,
2) Different Legal Systems,
3) Different Monetary Systems,
4) Different Market Condition,
5) Different Documentation and Procedures,
6) Different degree of Risk,

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5. Market is relatively homogeneous	5. Markets are diverse and highly heterogenous.
6. No Problems of exchange control and tariffs.	6. Exchange control and tariffs are there.
7. Available data is accurate, easily collected at less cost.	7. Data collection is a hard and costly affair.
8. Relative freedom from government	8. Government influences business decisions.
9. Less competition	9. More competition.
10. Stable business environment	10. Highly unstable business environment
11. Uniform financial climate	11. Variety of financial climates.
12. Business rules, mature and understood.	12. Rules diverse, changeable and unclear.

1.5 OBJECTIVES OF INTERNATIONAL BUSINESS

There are several answers to the question 'Why firms go international?'. The factors which motivate or provoke firms to go international may be broadly divided into two groups. Viz, the pull factors and the push factors.

The pull factors must of which are proactive reasons are those forces of attraction which pull the business to the foreign markets. In other words, companies are motivated to internationalise, because of the attractiveness of the foreign market. Such attractiveness included, broadly, the relative profitability and growth prospects. The push factors refer to the compulsions of the domestic market, like saturation of the market, which prompt companies to internationlise. Most of the push factors are reactive reasons.

Important objectives of international business are described below:

1) Profit Advantage:

International business could be more profitable than the domestic. There are cases where more than 100 percent of the total profit of the company is made in the foreign markets, in which case the domestic

operation, obviously, is incurring loss. In 1995, 6 out of the 100 largest US MNCs made more than 100 percent of their profits outside the US. This was 500 percent in the case of Digital Equipments. More than half of the total profits with respect to 40 of the 100 largest US-MNCs was contributed by foreign markets. Even when international business is less profitable than the domestic, its could increase the total profit.

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2) Growth Opportunities:

The enormous growth potential of many foreign markets is a very strong attractions for foreign companies. In a number of developing countries, both the population and income are growing fast. Naisbitt and Aburdane observe that Asians will be consumer's of the 1990's. During the decade, 80 million more will be added to the wealthiest Asian Countries, but about 10 million in Europe. That means great opportunities for North Americans and Europeans, as well as for Asian producers. As they further point out, Japan is moving from an export driven economy to a consumer-driven economy. It may be noted that several developing countries, the newly industrialising countries and the People's Republic of China, in particular have been growing much faster than the developed countries.

3) Domestic Market Constrains:

Domestic demand constraints derive many companies to expand the market beyond the National border. The market for a number of products tends to saturate or decline in the advanced countries. This often happens when the market potential has been almost fully tapped. In the United States, for example, the stock of several consumer durables like cars, TV sets etc, exceeds the total number of households. Estimates are that in the first quarter of the 21st century, while the population in some of the advanced economies would saturate or would grow very negligibly; in some others there would be a decline.

Particularly when the domestic market is very small, internationalisation is the only way to achieve significant growth. For example, Nestle derives

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only about two percent of its total sales from its home mearket, Switzerland. Similarly, in the case of Philips, only 8 percent of the total sales coming from the home market, Holland. Domestic recession often provokes companies to explore foreign markets. One of the factors which promoted the Hindustan Machine Tools Limited (HMT) to take up exports very seriously was the recession in the home market in the late 1960s. The recession in the automobile industry in the early 1990s similarly, encouraged several Indian anti component manufacturers to explore or give thrust to foreign markets.

4) Competition:

Competition may become a driving force behind internationalisation. A protected market does not normally motivate companies to seek business outside the home market. Until the liberalisations which got underway in July 1991, the Indian economy was a highly protected market. Not only were the domestic producers protected from foreign competition but domestic competition itself was restricted by several policy induced entry barriers, operated by such measures as industrial licensing and the MRTP regulations.

The economic liberalisation, ushered in India since 1991, which has increased competition from foreign firms as well as from those with in the country, have, however, significantly changed the scene. Many Indian companies are now systematically planning to go international in a big way.

5) Government Policies and Regulations:

Government Policies and regulations may also motivate internationalisation. There are both positive and negative factors which could cause internationalisation. Many governemtns give a number of incentives and other forms of positive support to domestic companies to export and to invest in foreign countries. Similary, serveral countries give a lot of Importance to import development and foreign investment.

Sometimes, as was the case in India companies maybe obliged to earn foreign exchange to finance their imports and to meet certain other foreign

exchange requirement like payment to royalty dividend etc., Futher, In India, permission to enter certain industries by the large companies and foreign companies was subject to specific export obligation.

6) Monopoly Power:

In some cases, international business is a corollary of the monopoly power which a film enjoys internationally. Monopoly power may arise from such factors as monopolisation of certain resources, Patent right, technological advantage product differntation, etc., Such monopoly power need not necessarily be an absolute one but even a dominant postion may facilitate internationalisation.

7) Spin-off Benefits:

International business may help the company to improve its domestic business. International business helps improve the image of the company. The foreigh exchange earning may enable a company to import capital goods, technology etc, which may not otherwise be posssible in countries like India. Another attraction of exports is the economic incentives offered by the government.

8) Strategic Vision:

The systematic and growing imternationalisation of many companies is essentially a part of their business poclicy or strategic management. The stimulus for internationalisation comes from the urge to grow the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation. Many companies in India like several pharmaceutical firms, have realised that a major part of their future growth will be in the foreign markets.

There are a number of corporations which are truly global planning of manufacturing facilities, logistical system, financial flows and marketing policies in such corporations is done considering the entire world as its market a border less world.

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1.6 INTERNATIONAL MARKETING DECISIONS

A film which plans to go international has to make a series of strategic decisions. They are broadly the following.

1) International Business Decision:

The first decision a company has to make is whether to take up international business, or not. This decision is based on a serious consideration of a number of important factors, such as the present and future overseas opportunities, domestic market opportunities, the resources of the company like skill, experience, production and marketing capabilities and finance, company objectives etc.,

2) Market Selection Decision:

Once it was been decided to go international the next important step is the selection of the most appropriate market. For this purpose, a through analysis of the potentials of the various overseas markets and their respective marketing environments is essential. Company resources and objectives may not permit a company to do business in all the overseas markets. Further, some markets are not potentially good, and it may be suicidal to waste company resources in such markets. A proper selection of the overseas market is therefore very important.

OBJECTIVES OF INTERNATIONAL BUSINESS:

1) Profit Advantage,
2) Growth Opportunities,
3) Domestic Market Constrains,
4) Competition,
5) Government Policies and Regulations,
6) Monopoly Power,
7) Spin-off Benefits,
8) Strategic Vision

3) Entry and Operating Decisions:

Once the market selection decision has been made, the next important task is do determine the appropriate mode of entering the foreign market. The important modes of entering the foreign market has to be analysed carefully.

4) Marketing Mix Decision:

The foreign market is characterised by a number of uncontrollable variables. The marketing mix consists of internal factors which are controllable. The success of international marketing; therefore depends to a large extent on the appropriateness of the marketing mix. The elements of the marketing mix-product; promotion, price and physical distribution-should be suitably designed so that they may be adopted to the characteristics of the overseas market.

5) **International Organisation Decision:**

A company which wants to do direct exporting has also to decide about its organisational structure so that the exporting function may be properly performed. This decision should necessarily be based on a careful consideration of such factors as the expected volume of export business, the nature of the overseas market, the nature of the expected volume of export business, the nature of the overseas market, the nature of the product, the size and resources of the company and the length of its export experience. The nature of the organisation structure of the company will depend on a number of factors such as the international orientation nature of business, size of business, future plans etc.

Barriers to International Marketing

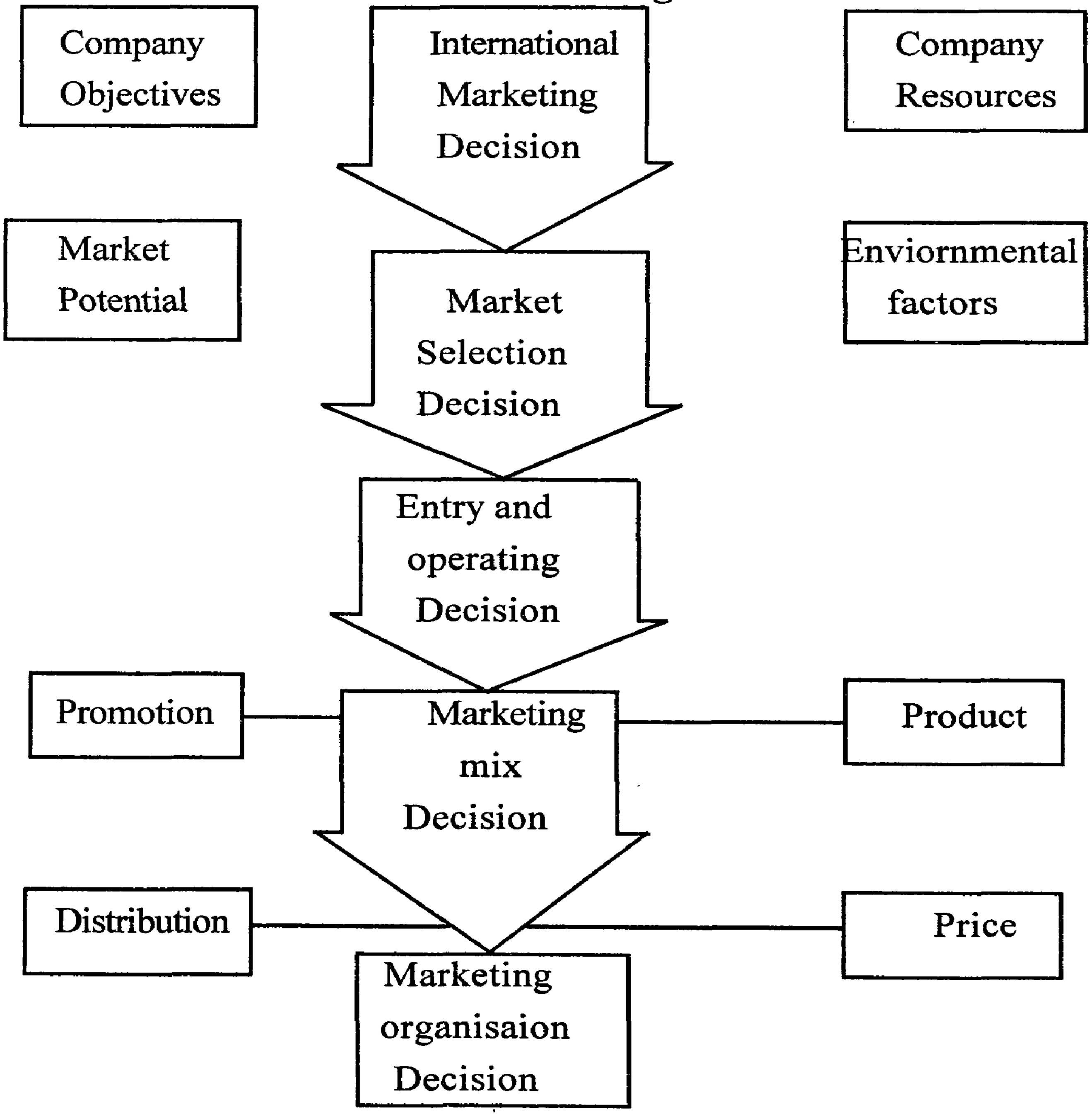

Figure: International Marketing Decisions

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International marketing process has become complex in its characteristics. Local production may not be possible for local people consumption but companies are trying to hunt overseas market where they seek competitive advantage. Nowadays developed countries are establishing their plants in developing countries largely due to low labour cost and to save their home countries from pollution. When a firm wants to go for international marketing, the following are the major problems and difficulties.

1) Huge foreign indebtedness:

Many countries of the world that would otherwise be attractive markets have accumulated such high foreign indebtedness that they cannot even pay the interest on their foreign debt. Among these countries are Mexico, Brazil, Poland and Romania. India's present balance of payment position was real bad, though now it is looking up.

2) Exchange instability:

Inflation, high indebtedness and political instability force a country's currency to depreciate or atleast add a lot of volatility to the currency's value. The result is that foreign investors hesitate to hold much of the currency, and this limits foreign trade.

3) Foreign entry regulations:

Governments are placing more regulations on foreign firms, such as requiring joint owndership with the majority share going to the domestic partner, a high level of nationals hired for management; technological transfer of trade secrets; and limits on profit repatriation.

4) Tariffs and other trade barriers:

Governments often impose unreasonably high tariffs against imports in order to subsidise or protect their own industries. They also resort to invisible trade barriers such as withholding or showing down import approval and requiring adjustments in imported products to meet their standards.

5) Unstable Goverments:

High indebtedness, high inflation and high unemployment in countries have resulted in highly unstable governments that expose foreign firms to the risks of expropriation, nationalisation, limits to profit repatriation, and so on.

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6) Corruption:

Officials in several countries require bribes in order to cooperate. They often award business to the highest briber rather than the best bidder. The political party which is in the Government is usually gets kickbacks in major deals like arms purchased for defence.

7) Technological pirating:

A company locating its plant abroad worries about foreign managers learning how to make its product and breaking away to compete openly. This has happened in many diverse areas like machinery, electronics chemicals, pharmaceuticals, and the like.

8) High cost of adaptation:

A company going abroad must study each foreign market carefully, become sensible to its economics, politics and culture make some adaptations in its products and communications to suit foreign tastes otherwise it might make some serious blunders.

9) Code of Conduct:

All the countries engaged in international trade have to adopt tne international code of conduct for product to be traded or marketed in a particular country by UNCTAD and WTO as per Dunkel Proposals.

1.7 SCOPE OF INTERNATIONAL MARKETING

The releted areas of international marketed include:

1. Exporting - Selling to foreign markets.
2. Importing - Buying from abroad.
3. Re-exporting - Importing semi finished goods and exproting final goods.
4. Management of International operations.

i Operating marketing and sales facolities abroad.

i Establishing production or assembly facilities in foreign countries.

iii Organisation and formation of trade block and settlement of external payment.

iv Creating licensing and joint venture arrangemant.

v Offering management contract and undertaking turn key projects aborad.

vi Foreign Exchange Arrangement and Management.

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True or False:

1. The Indian government encourage Indian companies to enlarge their International marketing efforts. (true/false)
2. Levying thses taxes is to make the foreign goods comparatively lesser than domestic goods. (true/false)
3. The exchange rates are fluctuating and are being determined by forces of supply and demand. (true/false)
4. Goverment polices and regulation may also motivate Internationlisation (true/false)
5. The marketing mix consists of Internal factors which are uncontrollable. (true/false)

Answer:

1) True 2) False
3) True 4) True
5) False

vii Understanding country-wise and commodity-wise tones of marketing by case to case.

viii Monitoring operation of marketing practices of multinationals and other agencies, development of C-marketing.

ix Promotional and development role of agencies engaged in marketing practices.

x National global policies for international marketing.

The scope of international marketing is not static but fully dynamic, it depends upon global level changed, national level changes and organisational level changes. International marketing dynamism differs from country to country, trade block to block and company to company. Uitimate goal of international marketing is to increase percentage share of individual country or company in global trade and to reach goods and services to the ulitimate consumers.

1.8 KEY TERMS

* Corruption
* Competition
* Strategic vision

1.9 SUMMARY

International marketing, meaning and definition, International Vs domestic marketing, objectives of international business, international marketing decision, scope of international marketing are dealt in with details in this chapter.

1.10 MODEL QUESTIONS

Section - A

1. Explain International Marketing Vs Domestic Marketing.
2. What are the objectives of International Business?
3. Explain International Marketing Business.

Section - B

1. Explain the Scope of International Marketing.
2. Difference between Domestic and International Marketing.
3. Explain various barriers of International Marketing.

LESSON - 2

INTERNATIONAL MARKETING ENVIRONMENT

STRUCTURE

2.0 Introduction
2.1 Unit Objectives
2.2 International Marketing environment
2.3 Economic Environment
2.4 Social and Cultural Environment
2.5 Political and Legal Environment
2.6 Environmental Monitoring
2.7 Key Terms
2.8 Summary
2.9 Model Questions

2.0 INTRODUCTION

Environment constitutes a major variable within which a business enterprise has to operate. Management of environment for the global business necessitates that environment be broken down into manageable components such as economic, political, legal, social, ecological, technology, monetary, etc., The main environment deals with the global business in social, political, legal, trade, monetary and financial environment. In the social environment, cultural factor plays a vital role. The cultural dimension complicates the environment in which a global business has to operate. One has to identify cultural boundaries also what are the underlying similarities and differences.

In the political environment one has to understand the political risk undertaking and the options available to him for managing same and also for legal environment. Manager involved in global business should have an appreciation of the legal problem that may arise while negotiating or implementing an export contract. The correct business approach to law is not find out what legal solutions are there to dispute which has occurred but what should be done to prevent occurrence of dispute. In monetary and financial environment the

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global business is concerned the relationship with output, income and expenditure of the developed countries. The monetary structure determines the foreign exchange market, the adjustment made on the international trade, capital flow and balance of payment. The markets of financial environment such as foreign exchange market, money market, long term capital market give the major development in international finance. IMF and world Bank play major role in the development of international financial system.

2.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* The international marketing environment
* Economic, social and cultural environment
* Legal and Political environment

2.2 INTERNATIONAL MARKETING ENVIRONMENT

International trade which arises due to divergent scarcities of resources between nations, points out the possibilities and advantages of trade. International marketing is the process through which international trade take place. International business includes any type of business activity that crosses international borders. Thus, international business is wider in scope than international marketing. It includes besides marketing, investments abroad including establishment of subsidiaries and joint ventures abroad.

Foreign market related factors which are relevant to the international business strategy formulation or which affect international businesses are often described as the international business environment. What makes a business strategy which is successful in one market, a failure in another market, is often the differences in the business environment. But the basic thing is not whether the market is domestic or international but whether the business environment of the different market is similar of dissimilar.

There are hundreds of cases of market failures emanating from the failure to properly understand the market characteristics and their implications for marketing and the resultant ill conceived marketing efforts and analysis of the experiences of leading American firms in the major market of the world has identifies that the

outstanding marketer is keenly aware of the variations from one market to another. He never thinks solely in terms of the 'common market'. He knows that countries , and even sections of countries,and even sections of countries , differ enormously in almost every factor critical to his market planning.

There are a number of examples of even mightly multinationals tasting bitter failure because of their inability to adopt to the idiosyncrasies of foreign markets. For example, procter and gamble stromed into the Japanese market. The result was disastrous until the company learnt how to adopt products and marketing stype to Japanese culture. P&g which entered japan in 1973 lost money until 1987, but by 1991, japan became its second largest foreign market. Similarly the American company, taxed as instruments, which started making semi-conductors in Japan 1961 took and American approach to hiring, pay and benefits, dismissing the Japanese system of offering bonuses two times a year as impractical. The workers disagreed. Later, when the company adopted the Japanese methods of recruiting and reward, the situation vastly changed and in 1985 it owns the deeming price for quality control in Japan.

In short, the business environment is a very important determinant of business strategy. When the business environment of different countries are disimilar, and international firm will have to design strategies to suit the environment of these markets. In other words, to be successful in a foreign market a company should establish a strong insider position based on the marketing environment.

2.3 ECONOMIC ENVIRONMENT

The economic environment has much to do with the scope of business prospects, and business strategy. The nature and level of development of the economic resources; size of the economy, economic system and economic policies, economic conditions, trends in the GNP growth rate and per capital income, nature of and trends in foreign trade, domestic supply and demand conditions are all factors relevant to business. More than three fourths of the total numbers of over 2000 nations of the world are developing countries, inhabited by about 80 percent of the world population.

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The developing countries fall into two categories, viz, low-income countries and middle income countries. The developed countries are high income countries. While most of the high income economics are industrial economics, some of them, like Kuwait and Saudi Arabia, are oil exporters.

In the developing countries, particularly in the low-income economics, the demand for many categories of good and services is limited because of the low levels of income. Even products which are regarded as essential in advanced economics are regarded as luxuries in these countries, for example a refrigerator, TV or even an electric fan. Import or production of such items may not be allowed or encouraged by the governments of these countries. The price, and consequently, the demand for them may be affected by high times on them because of their categorization as luxuries.

Many developing countries suffer from severe balance of payments problems. Therefore, their import policies, in general are very restructure. It may be noted that the economic growth rates of several developing countries like South Korea, Taiwan, Hong Kong and China have been enviable. A number of other developing countries have also been trying to get into the fast track by reforming their economic policies.

The developed economics are characterized by high level of income and consumption and business competition. Foreign trade is more liberal in comparison with that of most of the developing countries. Import restrictions are confined, by and large to import competing industries. The markets for many products in these economics are nearing saturation or have already saturated or are even declining mostly because of the population trends. While the advanced economies are characterized by high level of competition in the industrial sector and fast technological changes and innovation, most developing countries lag behind in these respects. Obsolete technologies are not uncommon in the LDCs. Companies in the developed economics have even viewed the developing countries as a market for obsolete technologies and products.

In countries where the income levels are lows, the scope for charging a price as high as in the high-income economics would be limited. In many cases, considerable reduction in cost can be achieved by manufacturing the product in the developing country where the labour cost is low. Cost reduction may also be achieved by reducing packaging costs. Low cost models without the fills may be appropriate for markets with low incomes. It may also be noted that in some of the very populous low-income countries, there exists significant demand for high-value items. For example, although India is a low-income economy, there is a good market for may high-value products. If five percent of the Indian population is well off; the absolute number, about 50 million, is larger that the total population of many of the developed countries.

All these factors should that the economic environment of different countries is not similar indicating that different business strategies may be required for the different markets. The different regions of a national economy may show great diversity in the economic nature. In such cases, it may not be appropriate to regard it as a single economic unit.

2.4 SOCIAL AND CULTURAL ENVIRONMENT:

Exporting means operating in a cross-cultural environment. The social or cultural environment encompassing the religious aspects, language, customs, traditions and beliefs, tastes and preferences, social institutions, buying and consumption habits etc., are all very important factors for business. What is liked by people of one culture may not be liked by those of some culture. One of the most important reasons for the failure of a number of companies in foreign markets is their failure to understand the cultural environment of these markets and to suitably formulate their business strategies.

For a business to be successful, its strategy should be the one that is appropriate in the socio-cultural environment. The marketing mix mills have to be so designed as best to suit the environmental characteristics of the market. Many companies modify their products and promotion strategies to suit the tastes and preferences or other characteristics of the population of the different countries.

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The values and beliefs associated with colour range significantly between different cultures. Blue, considered feminine and warm in Holland, and is regarded as masculine and cold in Sweden. Green is a favourite colour in the Muslim World; but in Malaysian it is associated with illness. White indicates death and mourning in China and Korea; but in some countries, it expresses happiness and is the colour of the bridal dress. Red is a popular colour in the communist countries, but many African countries have a national mistake for red colour.

In Thailand; Helene Curtis switched to black shampoo because Thai women felt that it made their hair look glossier. Nestlé today brews a large number of varieties of instant coffee to satisfy different national tastes. A very interesting example is that of the Vicks Vaporub, the popular pain balm, which is used as a mosquito repellant in some of the tropical areas.

National cultures are not always totally homogeneous. Each culture may have different sub-cultures. With in the same country, people having different religions may display distinct behavioral patterns. Racial groups, such as blacks and Hispanics, have different attitudes and preferences compared to white Anglo-Saxon Rotestants in the USA.

In a low-context culture, written communications dominate interpersonal and business relationships. In a high-context, on the other hand, it is the context which maters more than the written part of the communication. In a high-context culture, the word is enough proof of the commitment, written agreement in incidental. This is something quite easy to appreciate because in India too, a large amount of business has traditionally been carried simply on the basic of oral agreement.

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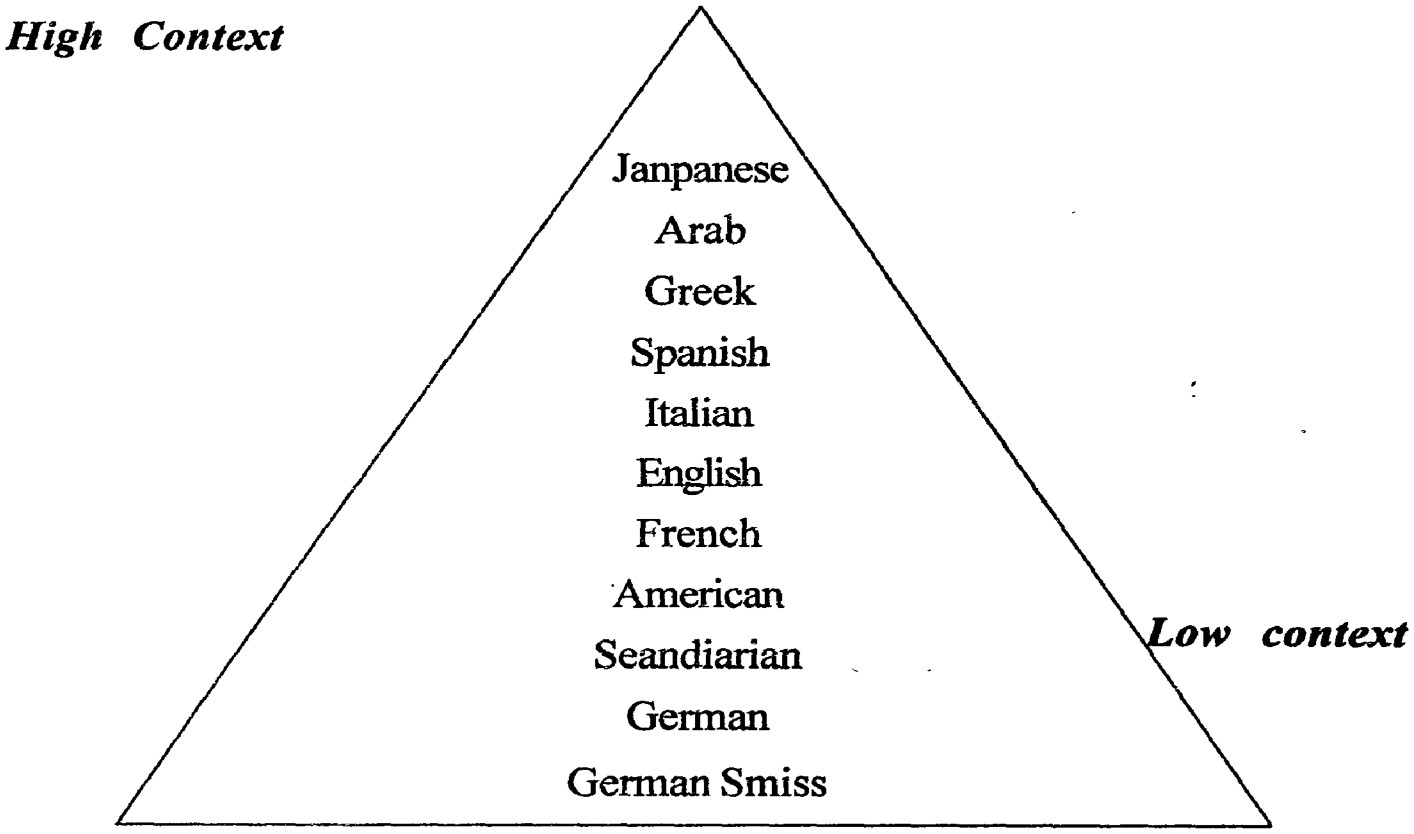

Liability to appreciate the cultural environment can result in marketing disasters. Some examples are given below:

Warner – Lambert Company used the adcopy it used successfully in the USA to promote 'Listerine' mouth wash in Thailand. The copy showed a boy and girl being affectionate to each other. The add did not click because in the conservative society of Thailand such proximity was formed upon. When the copy was slightly modified to show to girls, sales picked up.

Few years later, singer company found that while marketing serving machines in the middle east, the husband and not the wife, has to be approached with the argument that a sewing machines would make his wife more efficient.

Carlsberg, the world famous producer of beer, had to add a third elephant to its label of elephant beer in it's add in Africa. Two elephants are considered to signify bad luck there.

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A Russian will tent to speak English with a level done which will sound internationally natural to his own ears but to an English listener, he will sound uninterested and rude. Similarly, Americans speak louder than the Europeans and give the impression of assertiveness which may not be at all intended.

An short, the social environment of different markets differs vastly. Even within a nation, cultural diversity may be very significant. It is essential understand these differences to formulate successful business strategies.

2.5 POLITICAL AND LEGAL ENVIRONMENT:

The political environment, including the characteristics and policies of the political parties, the nature of constitutions and government system and the government environment and the legal system and provisions encompassing the economic and business policies and regulations are among the factors utmost importance in the market selection and business strategy formulation. These factors may vary considerably between different nations.

Until the political and economic changes of the late 1980's and yearly 1990's in the Eastern Europe and erstwhile USSR, these countries were a separate block by themselves with several common characteristics. A private enterprise were very limited and state trading, particularly counter-trade, was the rule. There were a lot of restriction on imports and foreign business.

In India, before the policies changes of 1991, 17 of the most important industries were exclusively reserved for the public sector. In addition, the public sector was to play a leading role in another 12 important industries. Thus, the industrial policy of India which wanted the public sectors to gain control over the commanding heights of the economy, limited the scope of the private enterprises both domestic and foreign. Even increase were foreign capital was allowed, there was ceiling on the foreign equity participation. Even after the policy liberalization in India the foreign equity participation is normally restricted to 51% against 40% in the past. Further, in the past, foreign firms in many developing countries were under the fear of nationalization.

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Although the trend of the direction of government policies across the world appears to be broadly one of convergence, there are lots of differences in the restriction and regulations of business, scope for foreign business, trade policies, procedures, incentive systems, and so on. For example, Arab nations did not do business with firms who wanted to do business with them must produce an Israel boycott certificate. Because of the political ties with Israel, the US government had adopted counter railing laws to present the US firms form complying with this boycott.

There are also wide venations in the policies and regulations regarding the conduct of the business. For example, certain trade practice are promotional methods allowed in some countries may be regarded us unfair by the laws of some other countries. Many governments specify standards for products to be marketed in the country. Policy or regulations regarding quality control and inspection very considerable between nations. such is the case with packaging and labeling.

In most of the countries, product promotion is subject to various types of controls. For example, in India, Doordarshan, does not entertain advertisements of certain products such as alcoholic drinks, cigarettes, cigars, beedies and panmasala. Alcoholic drinks not allowed to be advertised in other media too. In many countries, including India, the package and adverstiments of cigarettes carry the statutory warning that cigarette smoking is injurious to health. Baby food marketers are not allowed to promote the product as a substitute for breast feeding. Regulation of the quality, prices, packaging, labeling, etc., is also very common.

2.6 ENVIRONMENTAL MONITORING

Environmental analysis is an essential input in strategic management because it mill facilitate monitoring the environment to identify threats or opportunities. Strategic management refers to the stream of decisions and actions which leads to the development of an effective strategy to help achieve corporate objectives.

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Monitoring involves tracking environmental trends, sequence of events, or streams of activities. It frequently involves following signals or indicators unearthed during environmental scanning. Sometimes it entails tracking trends events or activities that the organization accidentally becomes aware of or which are brought to the organizations attention by outsiders.

The purpose of monitoring is to organize data to discern whether certain trends and patterns are emerging. Thus, as monitoring progresses, the data frequently more from imprecise to precise. At the same time, data interpretations and judgments are unavoidable at this stage.

Three outcomes emerge out of monitoring.

1. a specific description of environmental trends and patterns to be forecast
2. the identification of trends for further monitoring.
3. the identification of areas for further scanning.

These output become inputs for forecasting the environment. They will also cause for further scanning and monitoring.

Environmental monitoring helps in evolving a global strategy to handle differences that persist across countries. Differences are often difficult to perceive but careful observation yields dividends in the form of new opportunities and new ways of reducing risks.

MNCs must forecast economic conditions in the countries they operate. Large companies have their own staff of economists; smaller ones tend to reply on the general knowledge of non-specialized line managers and on forecasts supplied by private comprises, agencies, governments and banks. One of the most important things a company must know about any country where it does business is the exchange rate between its currency and the currency if other nations. Fluctuations in exchange rates will benefit or affect the fortunes of the companies. Political risk is the possibility that political changes, either in the short or the long run, will affect the activities of a company that does business abroad. One way of defusing political risk is to wire local people for important positions in the company.

It is pointed out that MNCs have failed to adjust their production methods to suit the varying levels of technological sophistication found throughout the world. Introducing automated production techniques to a culture whose technology depends on extensive manual labour may be neither appropriate nor successful. It is also pointed out that MNCs have benefited less development less developed countries immensely by introducing latest technologies.

2.7 KEY TERMS

* Legal Environment
* Monitorning
* Listerine
* Economic resources

2.8 MODEL QUESTIONS

Section - A

1. What is international marketing environment?
2. Explain economic environment.
3. Explain social and cultural environment.

Section - B

1. Explain various marketing strategy.
2. Explain environment monitoring

NOTES

True or False:

1. A number of other developing countries have also been trying to get into the fast track by reforming their economic policies. (true/false)
2. Low cost model with the fills amy be appropriate for markets with low incomes. (true/false)
3. What is liked by people of one culture may not be liked by those of some other culture. (true/false)
4. There were a no of restrictions on imports and foreign business. (true/false)
5. MNCS must forecast economic conditions in the countries they operate. (true/false)

Answer:

1) True 2) False
3) True 4) False
5) True

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LESSON – 3

MARKET SELECTION

STRUCTURE

3.0 Introduction
3.1 Unit Objectives
3.2 Market Selection Process
3.3 Determinants of market selection
3.4 Market profile
3.5 Bases of Classification
3.6 Key Terms
3.7 Summary
3.8 Model Questiions

3.0 INTRODUCTION

Proper selection of markets would avoid waste in time and effort. Selection of markets in the first stage in international marketing. The time and care taken to select the product and the market for initial export venture can minimize the risks and make ultimate success quicker and more certain. No matter how much attempt is made, the firm will not succeed unless it is marketing the right product in the right export market. It costs lot of time and money to find out a suitable market for a product.

One product may be more acceptable in some countries than in others. It would, therefore, be better to concentrate on a few fruitful markets than to spread to thinly. Market concentration can lead to better debt collection and cash flow and savings in administration. Of course, after having established in one market, the firm can always move on to the other markets. This is what Larsen and Toubro did while it entered the export markets for the first time. They concentrated on Indonesia. After having established Indonesia they moved on to other nearby markets. It is easier to extend operation in other markets because of the experience already gained in entering the first market.

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Even a company with ambitions plans and good prospects for global expansion has got to rank the markets for prioritization of the expansion plans. Market selection is based on a thorough evolution of the different markets with reference to certain well-defined criteria, given the company resources and objectives. Marketing research becomes necessary to obtain the data required for evaluating the markets.

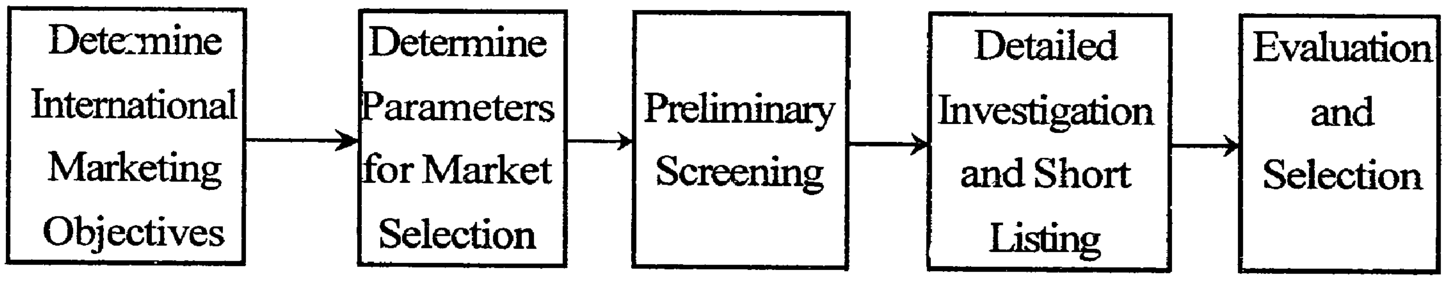
3.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* Determinates of market selection
* Market selection process and profile
* The market segmentation

3.2 MARKET SELECTION PROCESS

The important steps involved in the market selection process are depicted in the following figure.



1. International marketing objectives:

The market selected to serve a particular international marketing objective need not necessarily be the best suited to achieve some other international marketing objective. Various markets may have different degrees of attractiveness from the point of view of different objectives.

2. Parameters for selection:

It is essential to clearly lay down the Parameters and Criteria for evaluation. The parameters will include the relevant general and specific factors. The general factors are political stability, Currency strength and stability, Government policy, etc., the specific factors are competition, Demand, Labour Costs, Labour Productivity, Infrastructure, etc. These factors will be

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expressed in such specific terms so that they lend themselves to clear measurement and evaluation.

3. Preliminary screening:

The objective of the preliminary screening process is to eliminate the markets which are obviously not potential enough as revealed by a cursory screening. The parameters used for the preliminary screening may vary from products to product. However, Parameters like the size of population, per capital income, structure of the economy, infrastructural factors, political conditions etc., are commonly used. Information about some of the factors would enable accompany to eliminate certain markets from its consideration. For example, in a country where there is no telecasting, there is obviously no market for TV sets. A lot of information required for preliminary screening is available from such publications as the 'Statistical Year Book' of the United Nations and the 'Word Development Report'.

4. Short listing of markets:

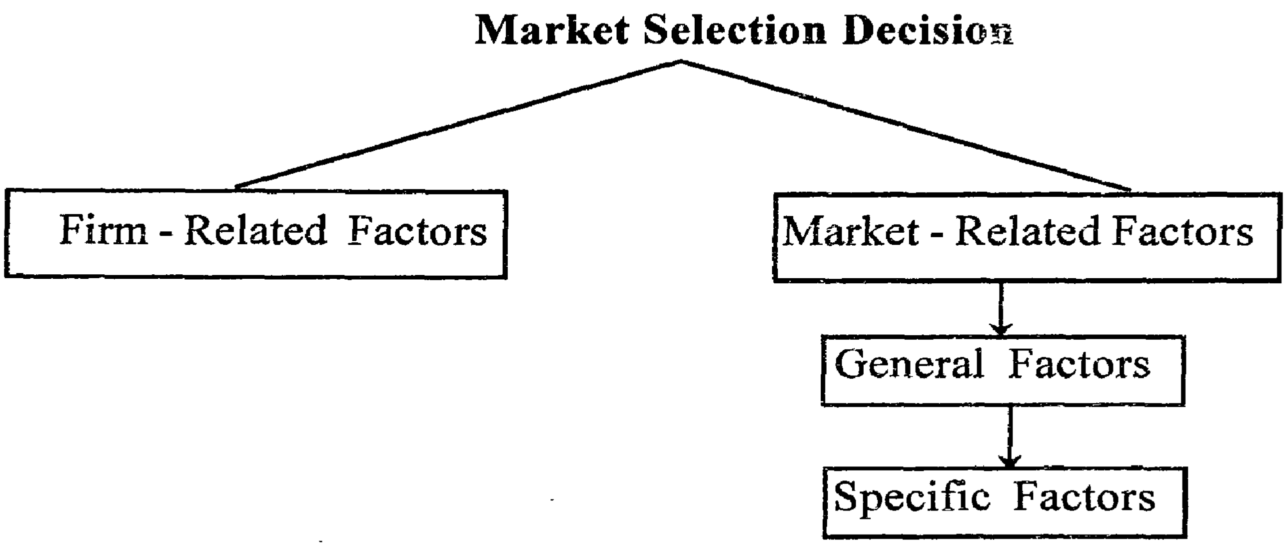
There would be a large number of markes left even ater the preliminary screening. They are further screened with the help of more information than was used at the preliminary screening stage. The objective is to distill a small number of markets which are likely to satisfy the Company's Criteria for market selection for a detailed analysis for ranking and final selection.

5. Evaluation and selection:

A thorough evaluation of the short listed markets is done with reference to the specific parameters and criteria and the markets are ranked on the basis for their overall attractiveness. One or more markets are selected from the rank list.

3.3 DETERMINANTS OF MARKET SELECTION:

Market Selection is normally based on two sets of factors, namely, the firms – related factors and the market-related factors.



1. Firm – Related Factors:

A firm whose export objective is only to sell out a marginal surplus will select a foreign market suited to serve this purpose. Another firm with the some product, which wants to export a very large quantity, forming a very significant share of its total output may have different considerations than the first firm in market selection. In the case of the second firm, as the total quantity involved is large and as it forms a significant share of its total out put, market diversification would be important to minimize sthe risk. When business growth is an important objective, growth potential of the market will be an important criterion for selection. The planned business strategy may also influence market selection. A company that has plans for large expansion of foreign business may choose a market, to start with, which can serve as a hub of international business. Market selection is also influenced by the international orientation of the company. Another very important determinant is the company resources comprising financial, human, technological and managerial factors . The dynamism and philosophy of the top management and the internal power relations may also influence the market selection decision.

2. Market- Related Factors

These factors may be broadly grouped into general factors and specific factors. General factors are factors general to the market, as a whole, where as the specific factors are factors which are specific to the industry concerned.

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i) General Factors:

1) Economic Fitactors:

Factors such as economic stability, GDP group trends, income distribution, per capital income, sectorial distribution of GDP and trends, nature of and trends in foreign trade and Bop, indebtedness , etc are included in this category.

2) Economic policy:

It include industrial policy, foreign investment policy, commercial policy, Monetary Policy , Fiscal policy and other Economic policies.

3) Business Regulations:

These are industrial licensing; restriction on growth, take overs mergers, etc., restrictions on foreign remittances, repatriations, etc; tax laws; import restrictions and local content stipulations; export obligations and so on.

4) Currency Stability:

Stabilisty of the national Currency is another very important consideration in Market selection.

5) Political factors:

Character of the political system, nature and behavior of thr ruling party and opposition parties, the government system etc., and political stability are among the most important determinants of market selection.

6) Ethnic factors:

Factors such as ethnic characteristics, including ethnic differences, and their implications for the business, ethnic harmony etc., should also be analysed.

7) Infrastructure facilities:

There are seriously affecting the business. For example, power shortage could cause considerable production losses.

ii) Specific factors:

There are a number of specific factors also need to be analysed for evaluating the market. There are

1. Trends in domestic producing and consumption and estimates for the future of the products concerned.
2. Trends in imports and exports and estimates for the future.
3. Nature of competition.
4. Government policy or regulations pertaining to the industry.
5. Infrastructure relevant to the industry.
6. Supply conditions of raw materials and other inputs.
7. Trade Practices and Customs.
8. Cultural factors consumer characteristics.
9. Market characteristics including the number and nature of market segments, price trends.

3.4 MARKET PROFILE

To formulate the marketing strategy, it is necessary for the company to prepare a profile of the selected markets. It may be noted that many of the items of information contained in the market profile are collected of the markets for market selection.

The term market profile is used in two contexts. It may refer to the overall profile of a market, ie., the general characteristics of a nation such as the demographic characteristics, political characteristics, economic policies and business regulations n general, nature and pattern of foreign trade, etc., In the other case, the market profile is a description of relevant characteristics of the market for a specific product in a country. Even the market profile for specific product usually includes, in the beginning, a brief general profile of the country.

The market profile of product is a fairly detailed account of relevant market characteristics. It provides information which is needed for the formulation of marketing strategy. A market profile will help in the formulation of appropriate product, pricing, distribution and promotion strategies.

Market profile for a product should contain the following:

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1. Trends in domestic production, demand, imports and exports and the forecasts of the same for the future.
2. Competitive characteristics - competitors, their competitive strategies as well as strengths and weaknesses of the competitors.
3. Market segment characteristics – number of segments an d their size, the success factors in each segment, determinants of demand in each segments, competitive characteristics of each segment, growth potentials of the segments etc.
4. Customer characteristics including tastes and preferences, attitudes, buying habits, usage characteristics etc.
5. Channel characteristics including trade practices.
6. Promotion characteristics.
7. Factors relevant to pricing.
8. Laws related to product, price promotion, distribution, imports etc.

Market segmentation

The firm entering the world market should classify them to effectively meet their requirements. This problem of segmentation does not arise if the firm is exporting its product to a single country. But if it is planning to export to more than one country, the problem does arises as to how a firm should segments its market on the international plane.

DETERMINANTS OF MARKET SELECTION:
1. Firm – Related Factors,
2. Market- Related Factors
i) General Factors:
1) Economic Fitactors,
2) Economic policy,
3) Business Regulations,
4) Currency Stability,
5) Political factors,
6) Ethnic factors,
7) Infrastructure facilities
ii) Specific factors:

3.5 BASES OF CLASSIFICATION

The world markets can be classified on the following bases:

1. Industrial developments of the countries
2. Population
3. Gross National Product
4. Income per head etc.

1. Classification on the basis of industrial development:

This basis is used in segmenting the world markets by the international agencies. On this basis, markets are divided in four distinct segments, viz., industrially developed economics, more developed, developing economics, raw materials exporting economics and subsistence economics.

2. Classification on the basis of population:

The population is another criterion for division of markets. The higher the population of a country the bigger is the market. Therefore it is worthwhile to assess the potentiality of the market in its size. While analyzing the population, it is necessary to look at i) age groups and sex ii) social class iii) education back ground iv) number of households v) geographic concentration and differences and vi) the rate of change in each of the above characteristics.

3. Classification on the basis of Gross National Product:

GNP and its rate of growth as also the standard of living of its population provide another basis for classification of countries and the markets. The big industrialized nations having large GNP like the USA, West European Countries, Japan, Australia and Canada are the best markets for consumer goods and consumer durables. Though these countries provide these manufactures but still the rich prefer to purchase the imported items because most of the people in the country are wealthy enough to do so. This classification is not much different from the classification done on the basis of economics given earlier as the industrially developed countries also occupy top position in GNP. At the other end markets can be classified in the least developed countries also on the basis of economics.

4. Classification according to income per head:

The size of population related to the income per head of a country's inhabitants is also an important criteria while deciding the respective value of the markets. It would be desirable to devote a lot of time study this aspect.

5. Classification according to Homogeneity:

Big countries may have different market characteristics in different parts of the country. For example, the USA may be divided into four different parts, Viz, New England, South, Mid-West and West. What may be sold in one part of the country may not necessarily be sold in another part of the country. On the other hand, there may be different countries in the continent whose market characteristics may be more or less similar.

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True or False:

1. Stability of the national currency is another very important consideration in market selection. (True/False)
2. Infrastructure facilities is not seriously affecting the business. (True/False)
3. A market profile will help in the formulation of appropriate product, pricing distribution and promotion strategies. (True/False)
4. Customer characteristic including tastes and preferences, attitudes, buying habits, usage characteristics etc. (True/False)
5. The higher the population of a country is not then the bigger market (True/False)

Answer:

1. True 2. False
3. True 4 True
5. False

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BASES OF CLASSIFICATION:

1. Industrial developments of the countries
2. Population,
3. Gross National Product,
4. Income per head etc.,
5. Homogeneity,
6. Other variables

6. Classification according to other variables:

Some other variables like socio-economic variables, cultural groupings and other behavioral patterns as reflected in usage rate consumer motive and the adoption process are used for classification of market. Apart from these, a firm may choose other variables also for segmenting the market.

In other words, the segment that a firm may enter depends on a number of factors like the firm-related factors, they are the size and resources of the firm; its product mix; marketing characteristics of the firm etc., the product-related factors, they are whether it is an innovative product or a 'me too' product; competitive factors they are the strengths and weaknesses of the competitors, the extent of competition in the different segments etc., and other market related factors like the size and characteristics of different segments, growth prospects of different segments etc.,

A firm with an innovative product and marketing strength may choose the most lucrative segments of the market first and may then spread to other segments.

3.6 KEY TERMS

* Economic Fictators
* Population
* Domestic products

3.7 SUMMARY

Market selection, market selection process, determinants of selection, market profile are dealt with details in this chapter.

3.8 MODEL QUESTIONS

Section - A

1. Explain market selection process.
2. Describe determination of market selection.
3. Explain market profile.

Section - B

1. What are the bases of classification?
2. Explain firm-related factors.

LESSON – 4

INTERNATIONAL PRODUCT DECISIONS

NOTES

STRUCTURE

4.0 Introduction
4.1 Unit Objectives
4.2 Product decisions
4.3 Market segment decisions
4.4 Product mix
4.5 Product life cycle
4.6 New product development
4.7 Standardization
4.8 Business environment and product strategies
4.9 Product strategies
4.10 Product communication strategies
4.11 Globalizatiion Vs Localisation

4.0 INTRODUCTION

The uniquences of product in the marketing mix is that all the other elements of the marketing mix, Viz., price, promotion and place are designed to achieve successful exchange of the product for consumer satisfaction and income. If the product fails to satisfy the consumer, any amount of effort to boost the sales will not have long term success. It is also true that, however good a product may be, it may not succeed if the other ingredients of the marketing mix are not appropriate. There is, however, no denying the fact that the success of marketing depends, inter alia, on the success of the product in satisfying the consumers.

Although the terms product strategy, product planning and product management are often used interchangeable, they are not and the same.

Product Strategy involves the managerial decisions about the product mix and the positioning and communication.

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Product Planning, used in a broad sense, involves not only the product strategy described above but also the product development measures. Some people, however, confine the use of the term product planning to the different aspects and functions of product development and exclude the product strategy.

Product Management refers to the managerial decisions pertaining to product development and the product strategies through the different stages of the product life cycle.

As our discussion of the product is related to international marketing, it would be more appropriate to use the term product decisions which is more comprehensive to involve all the above.

4.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* The product mix and product life cycle
* Business environment and product strategies
* Product communication strategies

4.2 PRODUCT DECISIONS

Important product decisions in international marketing management are:

1. Market segment decisions
2. Product mix decision
3. Product specifications
4. Positioning and communication decisions.

4.3 MARKET SEGMENT DECISIONS

The first decision to be made is the market segment decision because all other decisions – product mix decision, product specifications, and positioning and communications decisions - depends upon the target market.

Product Mix Decision

Product mix decision pertains to the type of products and product variants to be offered to the target market.

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Product Specifications

The involves specifications of the details of each product item in the product mix. This includes factors like styling, shape, size and other attributes and factors like packaging and labeling.

Positioning and Communications Decisions

Positioning is the image projected for the product. For example, a toilet soap may be positioned as a baby soap, a beauty soap, a deodorant soap, a freshness soap or a skin – care soap. Communications refers to the promotional message designed for the product. Obviously, both positioning and marketing communication are very much interrelated. For the same product, sometimes the positioning and communication strategies differ between markets. For example, Beefeater is a low priced gin in the U.K. (its home market); but when the company wanted to introduce it in the US it found that there was no room in the minds of the consumers for another low priced gin. So in the US the Beefeater was positioned as a high priced gin and became very successful.

PRODUCT

Philip Kotler defines a product as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. Includes physical objects, services, persons, places, organizations and ideas.

The above definition is very broad indeed. As our major concern is with goods, the following two definitions given by William Stanton will be more suitable for our purpose.

In a very narrow sense, a product is a set of tangible physical attributes assembled in an identifiable form. Each product carries a commonly understood descriptive (or generic)name, such as apples, steel, or baseball bats.

A broader interpretation recognizes each brand as a separate product.

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Components and Levels of product

A very elaborate and comprehensive picture of the dimensions product is drawn by Kotler by presenting the components of the product as consisting of three levels. These levels are the following.

Core product

The core product which is the most fundamental level of the product refers to the core benefit the consumer derives from the product.

In the context of international marketing it is important to note that in some cases although the basic physical product remains the same, the core products differs between markets because the purpose for which product is used is different in these different markets. For example, in India and several other developing countries, bicycles mostly serve the basic purpose of transportation but in several advanced countries, they are mostly for sporting and exercising. This calls for modifications of product design, positioning and communication strategies. Similarly, in some countries beer is regarded as an alcoholic drink; in some other it is a soft drink.

Tangible product

Tangible product is the actual form, with all its attributes, in which the product is offered to the consumer. For example, Lux toilet soap, godrej refrigerator, bajaj chetak scooter, good knight mosquito mats, etc., are tangible products.

The tangible product has certain characteristics like a quality level, features, styling, a brand name and packaging.

In many cases, modifications to the tangible product are required for marketing in different countries. In some cases such modifications may be necessitated by legal re-quirements pertaining to quality levels, packaging, labeling etc. Competitive and economic condition may also call for such modifications. For example, for selling a product in an advanced country, an Indian

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manufacture may have to upgrade the product quality and improve the packaging. Sometime it may be the cultural factors which necessitate modification. For example, different cultures have different beliefs or notions associated with certain colours, numbers etc. further, in several cases the same word has different meanings in different languages or countries.

Augmented product

Augmented product refers to certain additional services or benefits offered with the produce such as installation, delivery and credit facilities, after sales service and warranty.

What the well – known Marketing expert Theodore Levitt observed nearly three decades ago is very relevant about a competitive market: "the new competition is not between what companies produce in their factories but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing and other things that people value."

An Indian firm which ventures to sell its products in the foreign markets which are very competitive should bear these factors in mind. Product augmentation may not be important in a seller's market but they are very important in the competitive markets which are buyer's markets.

4.4 PRODUCT MIX

The product mix is the full list of all the products offered for sale by a company

The product mix consists of one or more product lines. A product line is a group of products that are closely related either because they satisfy a class of need, are used together, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

A specific version of a product that has a separate designation in the seller's list is known as a product items.

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MARKET SEGMENT DECISIONS:
1. Product Mix Decision,
2. Product Specifications,
3. Positioning and Communications Decisions,
4. PRODUCT:
1) Components and Levels of product
2) Core product
3) Tangible product
4) Augmented product

The product mix has certain width, depth and consistency.

The width refers to the number of different product lines in the product mix.

The depth refers to the average number of items offered by the company within each product line.

The consistency refers to the extent to which the various product lines are closely related in end use, production requirements, distribution channels, or in some other ways.

One of the important decisions in international business is the width and depth the product mix and the length of each product line. It may vary between markets depending upon the market characteristics. It is generally observed that companies do not introduce their full range in some countries, particularly in the developing countries for reasons such as limited competition, lack of demand etc. it has also been a common practice to introduce products in some markets, especially the developing countries, only at a later stage – sometimes only after the product has become absolute or has reached the maturity or declining stage in the product life cycle.

4.5 PRODUCT LIFE CYCLE

Like living beings, product have life cycle. The product Life Cycle (PLC) is depicted by the sales curve of the product since its introduction.

A product normally passes through (i.e..., a PLC has) four different stages, namely, introduction, growth, maturity and decline. Fig.4.1 depicts a typical product life cycle.

INTRODUCTION

The introduction stage of the PLC which starts with the launching of the new product is characterized by:

1. Low sales because it generally takes some time for a new product to get wide acceptance by consumers and it also takes time to expand the marketing of the product.

2. High costs per unit because of the low sales and high promotional expenditure.

3. Absence of or low competition if the product is entirely new.

4. Loss or negligible profits because of low sales and high costs.

Growth

The growth sales which follows the introduction stage is characterized by:

1. Fast growth in sales because of increasing consumer acceptance and expansion of marketing.

2. Growing profits because of growing sales and fall in the incidence of fixed production cost and marketing cost per unit.

3. Increasing Competition.

4. Market segmentation and the introduction of different versions (models) of the product.

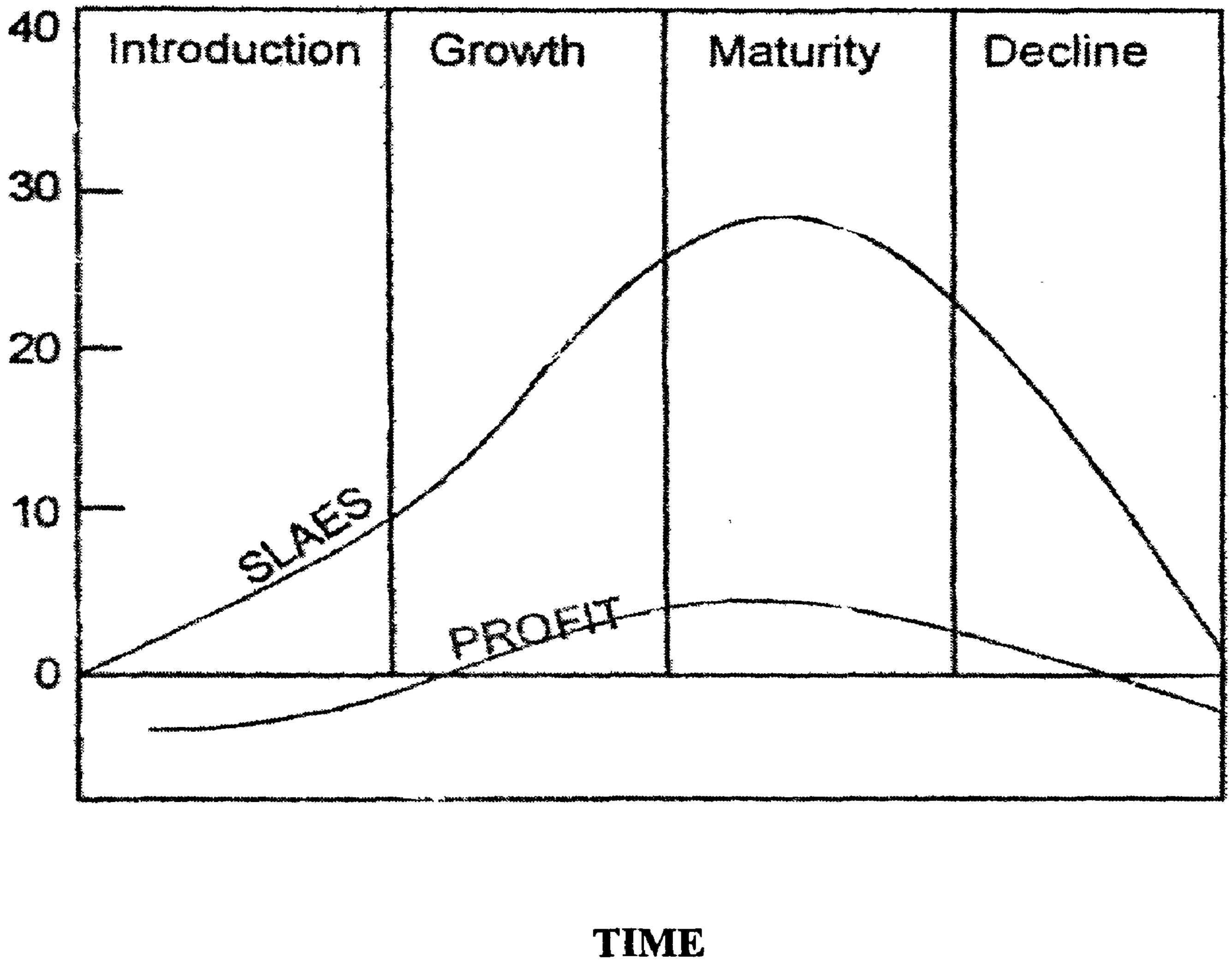

Fig 4.1 Product Life Cycle

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Maturity

The maturity stage is characterized by:

1. Saturation of sales (in the early part of this stage, sales may grow slowly but at the later part there could even be a fall in sales)
2. Increase competition.
3. Falling profits because of high promotional expenditure and falling margins.

Decline

The last stage is characterized by:

1. Entry of new products which compete with the product.
2. Decline in sales.
3. Decline in profits: profits may even become negative.
4. Exit of some of the firms.

PLC and International Marketing

International marketing may enable a firm to alter the shape of thee PLC. Even after the sale in one market has reached the maturity stage, the sales could be kept growing by exporting it to foreign markets,like the developing countries, where the product is not yet introduced or where the sales in negligible.

It is also a fact that is several cases technologies products are introduced in developing counties when they have become obsolete in the advanced countries.

Figures 4.2 to 4.5 show the PLC for a product in different countries. In countries A the product is in the declining stage, in country B it is in the maturity stages, in country C in the growth stage, in country D in the introductory stages while the product is not yet introduced in country E.

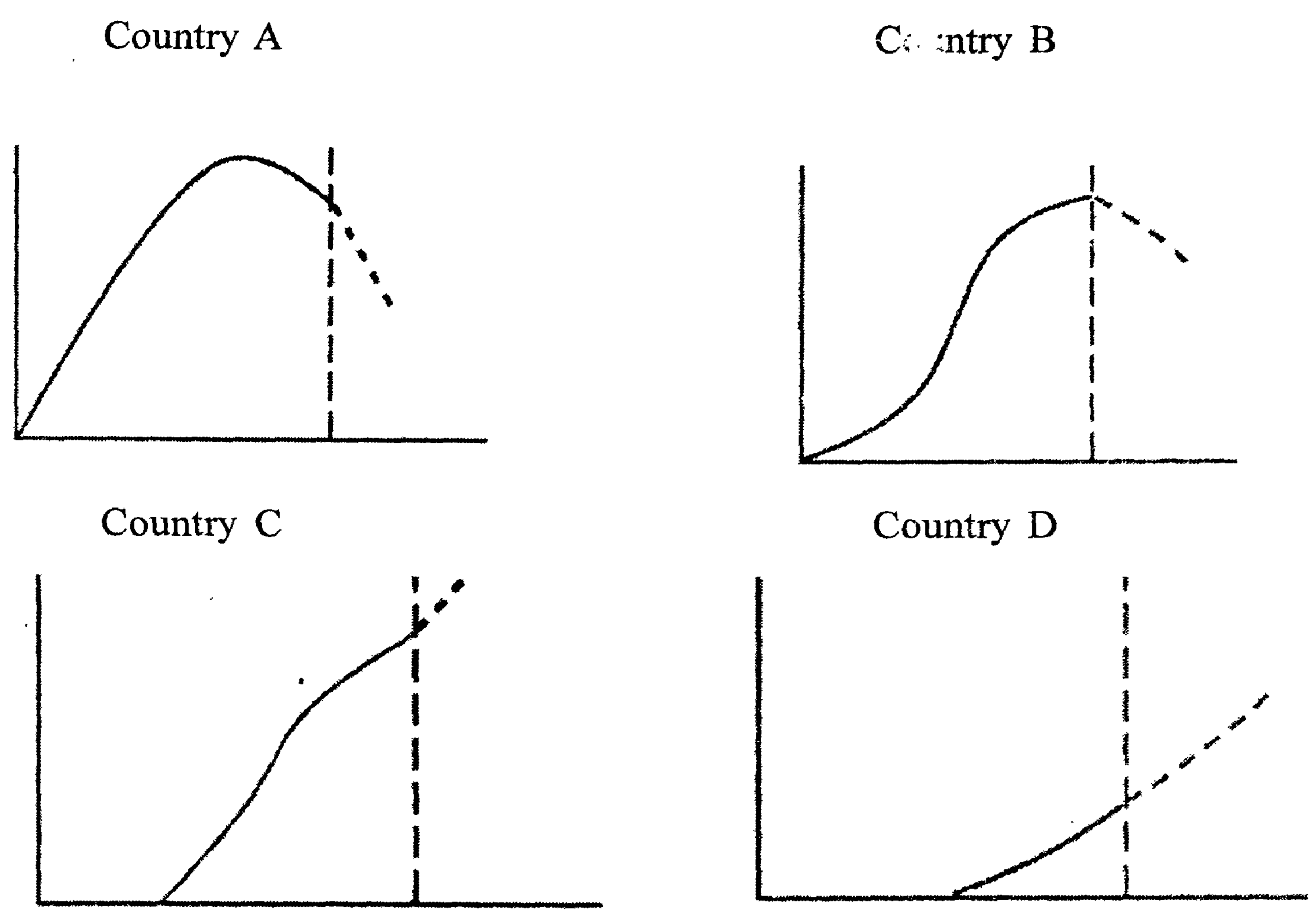

Fig. 4.2 - 4.5 PLC for a Product in Different countries

Fig 4.6 shows the effect of international marketing on the shape of the PLC.

In Fig. 4.6 DS is the domestic sales curve. The shaded area shows the foreign sales. In the absence of international marketing, there would have been a fall in the total sales of the company but because of the exports this was prevented. TS represents the total sales comprising domestic sales and foreign sales.

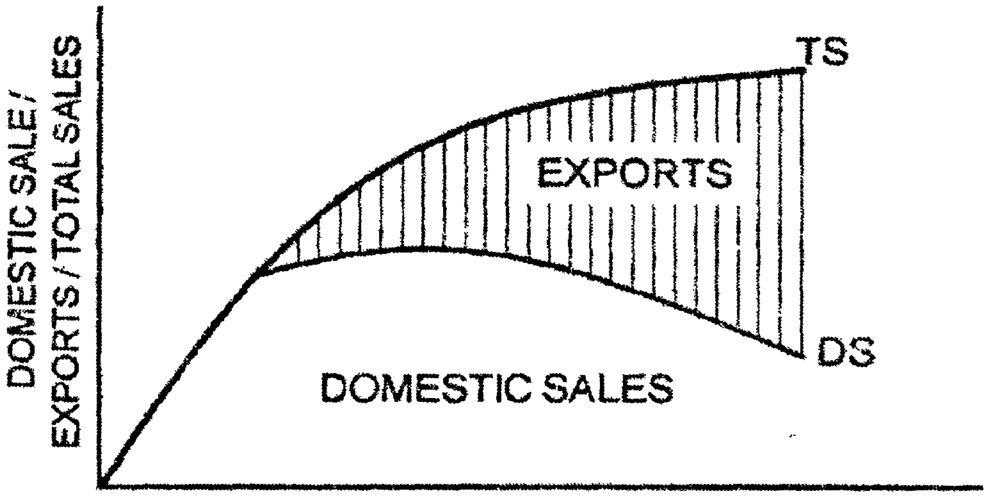

Fig. 4.6 International Business and PLC

NOTES

NEW PRODUCT DEVELOPMENT:
1. Copying,
2. Product Modification,
3. Innovation,
4. Steps in New product Development:
1) Idea Generation,
2) Evalution and Selection,
3) Concept Testing,
5) Product Development,
6) Market Testing,
7) Commercilisation

It may be noted that many products are introduced in different countries at different times. In some cases, when a product in the maturity stage or decline stage in one conuntry, it may be in the growth stage in some countries and in the introduction stage in some others.

There is often a time lag between countries in the adoption and diffusion of technologies. The developing countries often lag behind the developed ones. Even among the developed countries, the technology or new product absorption is not simulatneous or similar. For example, the black and white television extensively penetrated households in the Unites States nearly a dozen years before they reached comparable number of viewers in Europe and Japan. In the case of colour television the time lag was five or six years for Japan and a few more for Europe. In the case of Video cassette recorders, there was a diference of three of four years - but in this case Europe and Japan led the way, the US with its focus on cable T.V. followed.

United States

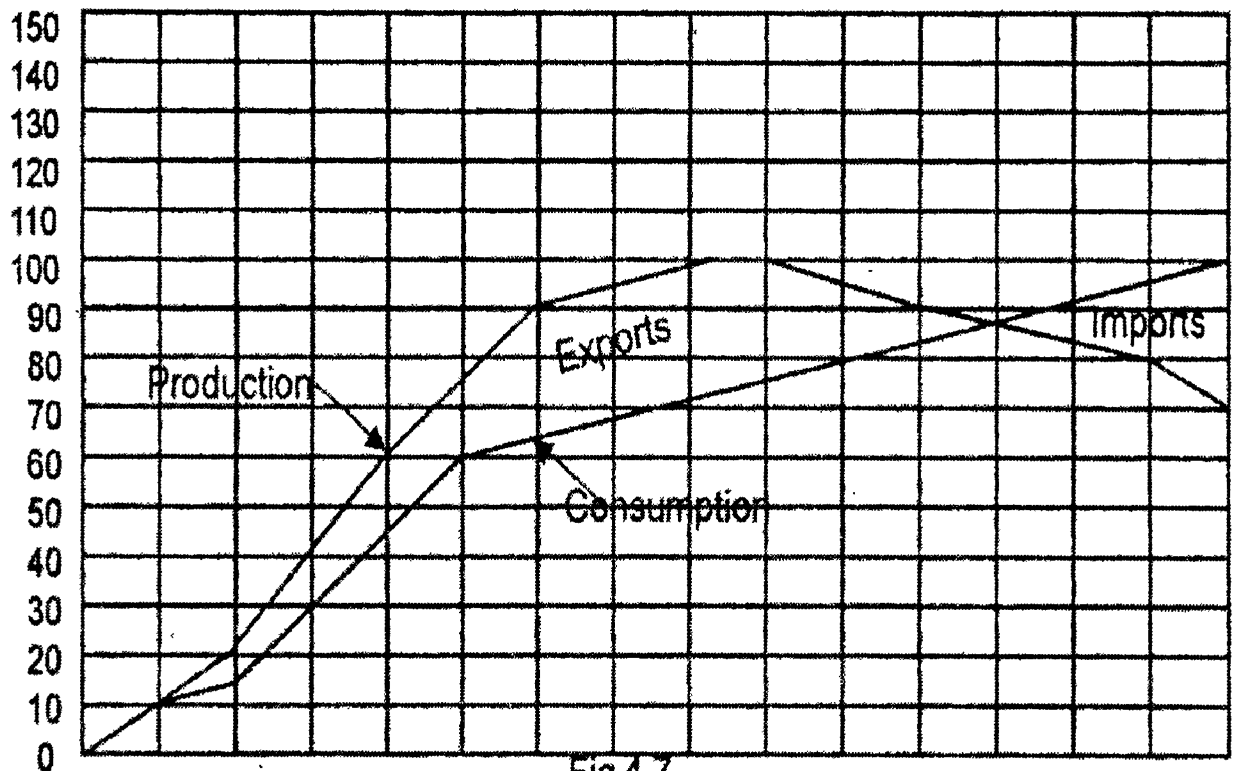

Fig 4.7

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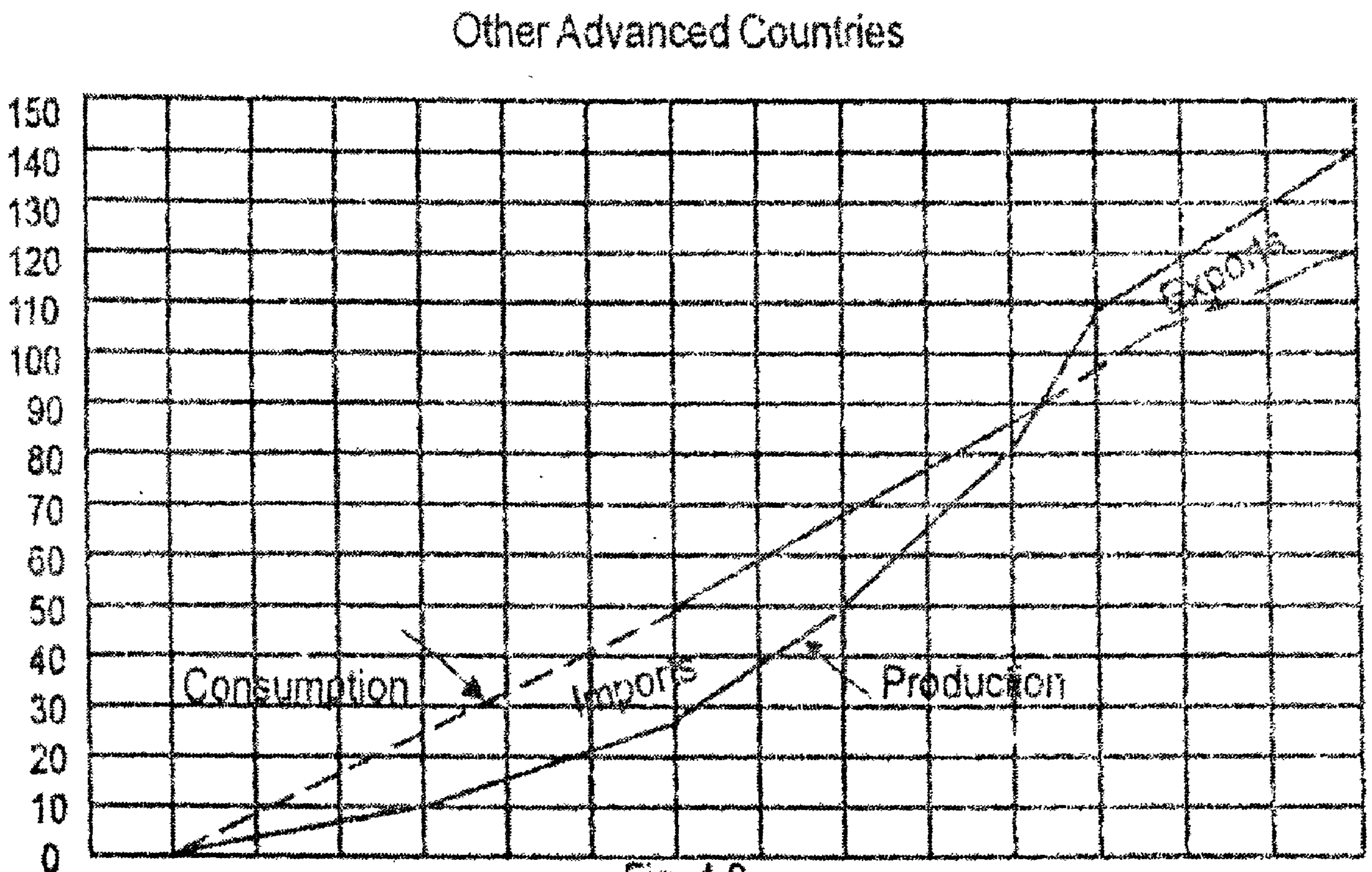

Fig. 4.8

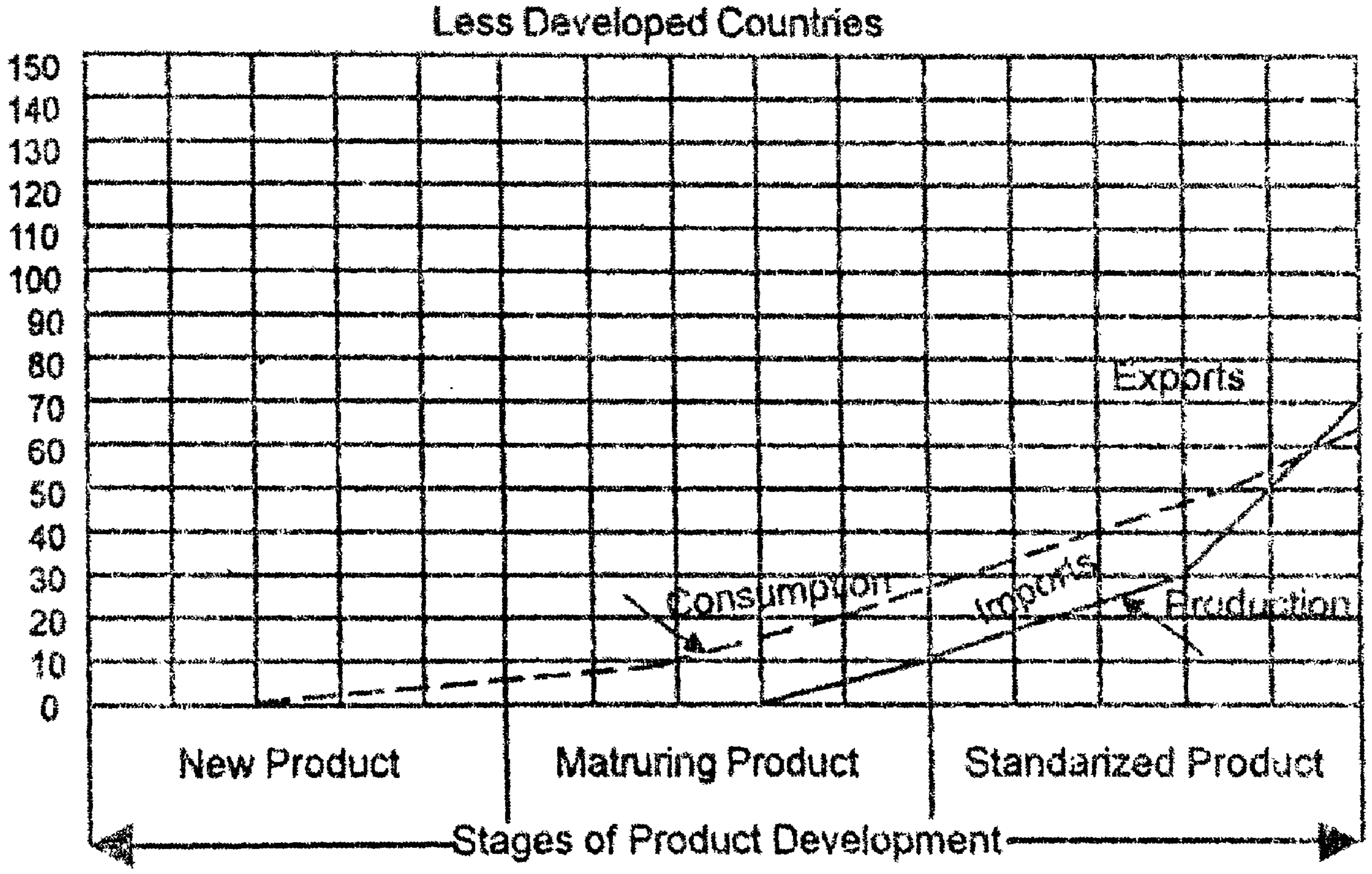

Fig. 4.9 International Trade and Production in the Product Cycle

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It may be noted that the black and white T.V. was introduced in India nationally only after it had reached the declining stage in advanced countries. When the colour T.V was in the introduction and growth stages in India it was in the maturity or decline stage in several countries.

The product life cycle model developed by Vernon shows how the roles of different categoreis of countries as exporters or importers reverse over different stages of the product life cycle. According to this model, an innovatiove product is first introduced in an advanced country like the USA (because of certain favouable factors like a large market, ease of organising production etc.) The product is then exported then exported to other developed countries like the West European countries and Japan. As the market in thes countries enlarge production facilities are established there. These subsidiaries, in addition to catering to the domestic markets, export to the developing countries and to the United States. Later production facilities get established in the developing countries. When the technology/product gets standardised, the developing countries get some edge over others because of the low cost of productioin. They would then start exports to the developed countries. The situation is portrayed in Fig.4.9.

4.6 NEW PRODUCT DEVELOPMENT

If a company finds that good opportunity exists for products it does not manufacture now, to exploit that opportunity new product development becomes essential.

From the point of view of a company, there are three types of new product.

1. Innovative Product i.e., a product which is entirely original and new to the market.

NOTES

2. Significantly Modified Product, i.e., a significant modification of an existing product (of either the company or others)
3. Copy of the Existing Product, i.e., exactly or almost the same type of product currently marketed by other companies.

   In fact, opportunities exist for all these three categories of products.

Copying

There are many products without patent or other legal hurdles which can be coped and marketed. As a matter of fact, in the case of a number of products, particualrly labour intensive products, manufacturers in the dveloped countries have been losing their competitiveness. Developing country firms have been emerging as exporters of these products. Many developed country firms (manufacturers and marketers) are eager to form alliances with firms in the dveloping countries for the manufacture of such products. Firms in developing countries may obtain technology and/or marketing support from the developed country firms.

Product Modification

Lot of export opportunities exist by product modifications. This requires enterprise and innovativeness. It is known that one of the reasons for the success of the Japanese is their skill in product improvement.

Innovation

Development of an entirely new product is a real challenge. in many cases it involves a lot of research and development expenditure the considering the low success rates of the new products, one should consider it as very risky. But, then, profit is the reward for risk-bearing. There are also cases of successful new product innovation without any significant R & D expenditure or other investments.

Steps in New product Development

The different stages of development of an innovative product are the following:

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1. Idea Generation: The first step in the product development is the generation of as many new product ideas as possible. The important sources of new product ideas are company's market research facility, company sales force, customers, competitors, scientists and technocrats, research and educational institutions, etc.

2. Evalution and Selection: The second step is to evaluate the ideas generated and to select the idea or ideas which is/are worth pursuing further.

3. Concept Testing: Concept testing involves conceptualising the product idea into a product and testing its suitability and customer acceptance. For example, if the new product idea is of a new type of emergency lamp, concept testing would involve deciding about its size, weight, shape and other features like convenience in use, lighting specificatioins, etc.

4. Business Analysis: Analysis of commercial feasilability of the product involves estimating productioin and marketing costs, sales potential and profit.

5. Product Development: If the business analysis reveals that the product is a profitable propostition, the next stage is development of the product in its physical form. This stage comprises the technical aspects of product development.

6. Market Testing: It is common to conduct a market testing of the product before it is comercialised. The objective is to measure the consumer reaction to the product. Product quality, features, packaging, price etc. may be subjected to test. The feedback from the test marketing would enable the firm to improve the product and increase the customer acceptance. Test marketing is normally conducted with a representative sample of potential consumers or in some select markets like some cities/towns which are regarded representative.

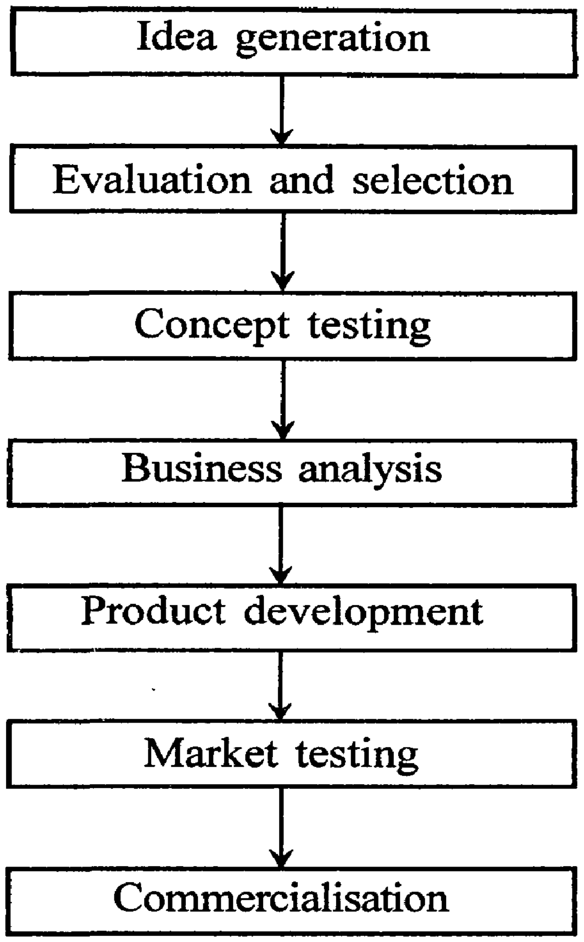

Fig. 4.10. Steps in New Product Development

It is imprtant that the physcial and the consumer testing are done in the foreign markets concerned. The physical factors like weather and climatic conditions, geographical conditions etc., may affect the product. Similarly, the characteristics of the consumers and middlemen may differ between markets.

Small firms developing products for foreign markets may find market testing difficult. They may not have the facilities, resources and experience to do this. Thr firm may, therefore, buy the services of marketing research firms and firms offering testing services. Even large firms may find it more convenient. Organisations like the Export-Import Bank of India, other export promotion organisations and marketing research firms in India would be able to help the exporter to identify the right marketing research or testing service firm abroad.

7. Commercilisation: Market testing would help the management to decide whether the new product should be taken up and if yes whether it should be improved or launched as it is. If the decision is in favour of the new product, improvements, if needed, are made and measures are taken for its production. The product is then launched in the market.

NOTES

Some important marketing decisions pertaining to commercialisation are:

1. When to launch the product
2. Where, i.e., in which market (s) to launch the product.
3. Whom to target the product first.
4. How to market the product.

4.7 STANDARDIZATION

Samiee and Roth (1992) conducted a study on the influence of global marketing standardization on performance and what they have to say is very interesting. Conventional wisdom suggests that standardization brings cost savings which include economics of scale in research and development, purchasing, production and marketing and the possibility of rationalizing international production and operative via exports. Standardization is also though to offer more control over marketing. What Samiee and Roth point out is that, despited many such claims being repeated over the years, few actual studies have been carried out. In their study, Samiee and Roth operationalized global standardization by using and indes comprising five items.

1. Customer needs are standardized worldwide.
2. Product awareness and information exist worldwide.
3. Standardized product technology exists worldwide.
4. Competitiors market a standardized.
5. Standaridized purchasing practices exist worldwide.

Global standardization was then examined aganist technology, product life cycle, marketing and strategy measures and business unit performance. Their findings do not support superior performance resulting from global standardi-zation. They then go on to say:

Common view about standardization have rarely been supported empirically. It may well be that such views are based on a few causal observations. The fact that Coca-Cola and Colgate-Palmolive sell some of their products in more than 160 countries does not signify that they have adopted a high

degree of standardisation for all their products globally. Only three Coca-Cola brands are standardised and one of them. Sprite, has a dirrerent formulation in Japan. Some Colgate-Palmolive products are marketed in just a few countries. Axion paste dish washing detergent, for example, was formulated for developing countries and La Croix Plus detergent was custom made for the French market. Colgate thooth paste in marketed the same way globally, though its advanved Gum Protection Formula is used in only 27 nations. Perhaps brand names have the highest Likelihood of becoming global, but the presence of the global brand implies a global position (i.e. the same postion in every intermarket segment).

However, a recent article by Takashi Hisatomi (1991), a general manager in the product and marketing starategy office of Nissan.

Table 4.1 The Ten most recognized brands

No	The World	United States	Europe	Japan
1	Coca-Cola	Coca-Cola	Coca-cola	Sony
2	Sony	Campbell's	Sony	National
3	Mercedes-Benz	Disney	Mercedes-Benz	Mercedes-Benz
4	Kodak	Pepsi-Cola	BMW	Toyota
5	Disney	Kodak	Philips	Toyota
6	Nestle	NBC	Volkswagen	Rolls-Royce
7	Toyota	Black&Decker	Adidas	Seiko
8	McKonald's	Kellogg's	Kodak	Matsushita
9	IBM	McDonald's	Nivea	Hitachi
10	Pepsi-Cola	Hershey's	Porshe	Suntory

Source: M.Strauss (1992), 'Cashing in on the clear Canadian image', Global and Mail, Toronto, 13 March.

Motor Company, has some interesting things to say about Nissan and about convergence in consumer tastes across Europe, Japan and the United States, but

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6) Market Testing,
7) Commercilisation

NOTES

noted that there are also certain specific demands within those markets that must be recognized. Nissan had passed through a series of stages in terms of its international marketing, for example:

1. Exporting automobiles as designed for the Japanese Market.

2. Taking specific factors relating to the US and European markets into consideration, but designing and manufacturing mainly for the Japanese market and exporting the product overseas. This resulted in shipments of vehicles that matched none of the markets.

3. Establishing form 1986 a 'Lead-country' system, focusing on a target market and manufacturing a vehicle to match the needs and requirements of that market. This had led to successes with the 240SXx and Maxima.

4. Currently developing a strategy on a global perspective, as Nissan now has production bases in twenty-one countries.

At the same time there is convergence in what the buying in what the buying public is looking for in a car, at least in terms of size and styling. As Hisatomi states, until several years ago there was definitely a unique styling for each area. Recently, however, the Chevrolet Lumina of the United States, Peugeot 405 of France and the Honda Accord and Nissan Maxima of Japan have become similar in sytling. Nevertheless, while similarities exist, account also has to be taken of some important structural market differences. This supports what was said before about building on similarities where these are to found, while at the same time recognizing important fundamental differences.

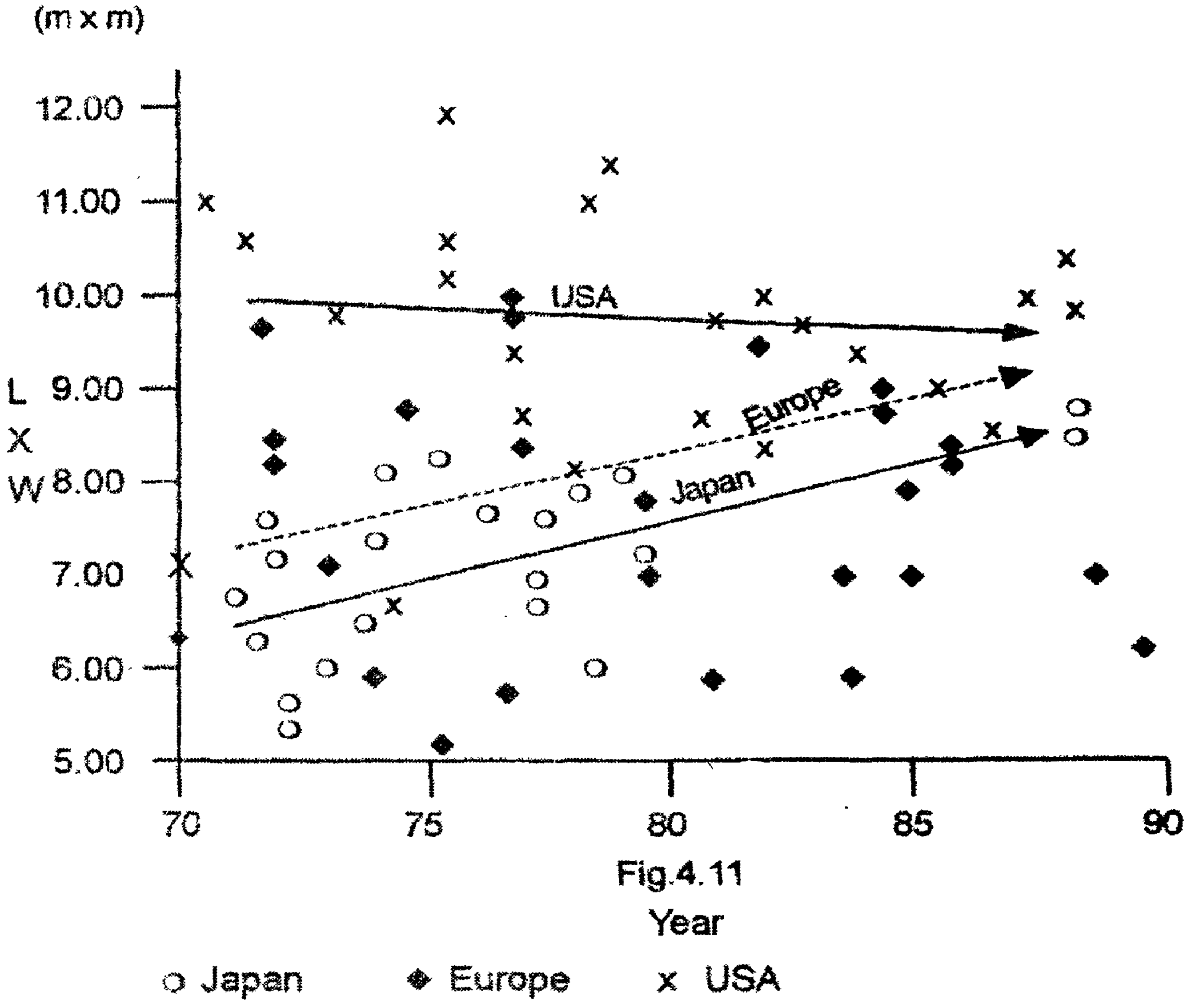

Figure 4.11: Consumer convergence on car body size across the United States, Europe and Japan (Source: Takashi Hisatomi, 1991, 'Global Marketing by the Nissan Motor Co.Ltd', Marketing and Research Today, 1991(pp. 56-62)

Lennon (1991), in an article on developing brand strategies across borders, took this a state further in citing the example of the Single European Market, saying that it is possible to see the management of brands across different countries as analogous to managing a brand through time in any one country.

Lennon's model for managing the global brand is described below. Over time the elements that make up the brand's personality have been formally or informally codified and passed down to succeeding brand managers and account executives. Over time the successful brand has developed a distinctive personality

NOTES

1. What the product is? Is it the same in each market or is it made to country specifications? What are the functional rewards?

Japan 1988	USA 1989	Europe 1988
1. Self-expression	1. Self-expression	1. Self-exspression
2. Driving Sensation	2. Confortable and enjoyable driving	2. Quality and Practicality
3. Comfortable enjoyable driving	3. Driving Sensation	3. Comfortable and enjoyable driving
4. Quality and Practically	4. Personal	4. Value for money
5. Sporty handling	5. Innovative mind	5. Driving Sensation
6. Personal	6. Sporty handling	6. Innovative mind

Figure 4.12: Comparison of consumer values of cars in Japan, the United State and Europe. (Source: Takashi Hisatomi, 1991, 'Global Marketing by the Nissan Motor Co. Ltd. Marketing and Research Today, 19 (1), pp.56-62)

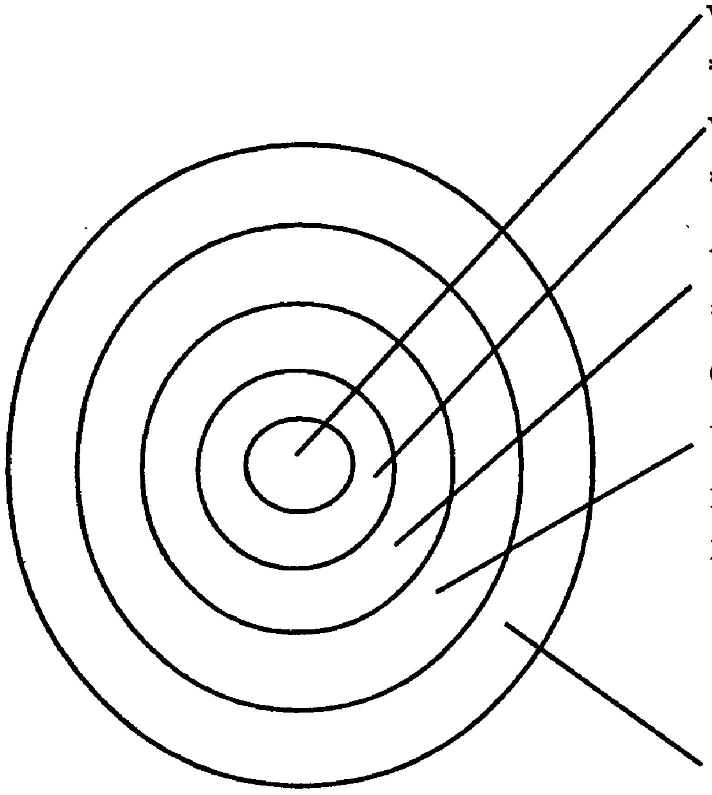

Figure 4.13. Lennons's model for managing global brands. (Source: Judie Lennon, 1991, 'Developing brand strategis across borders', Marketing Research Today, 19(3), pp. 160-169)

NOTES

Table 4.2 A Standardized global strategy checklist

	Yes Continue to explore	No Standardization not appropriate
1. Is there a global market segment for your product?	Yes	No
2. Are there synerigies associated with a global strategy?	Yes	No
3. Are there no external constratints/government regulation on ability to implement a global strategy	Yes	No
4. Are there no internal constraints to implementing a global strategy?	Yes	No
If yes to all four, consider global.		

Source : Susan P.Douglas and Yoram Wind (1987), 'The myth of globalisatioin', Columbia Journal of World Business, Winter pp.19-29, Copy right 1987, © Columbia Journal of World Business. Reprinted with permission

1. What the brand is? If the brand was a person, how would it be described? What happens, then, when brand personalities cross borders?
2. What is the advertising idea that expresses the 'Who' and the 'What?' All successful global brands have a set of rules, codes and conventions that dictate how they are to appear. Global recognition arises form uniformity in sue of colour, logo, style of expression, music, advertising claim, etc.
3. What does the advertising have to do in strategic terms? What is the brand's current position in the market and how does it need to be changed? While executions will require different emphasis, the personality remains the same.

NOTES

4. What executional modifications are required to reflect cultural nuance?

Perhaps the best synthesis is achieved by Douglas and Wind (1987) writing on the 'myth of globalization' (See Table 4.2)

ADAPTATION

Rather than resort to adaptation, it is best plan for it, otherwise you will run into it like a brick wall, and when you do, there will be no budget for corrective action! Instead of learning by doing, a more productive and much less expensive way is to anticipate the market. There is no substitue for market research and the intelligence it provides. It is a form of raw energy that you should tap into and harness to your needs. A basic understanding of the market is one thing; projected product potential is related but quite different. It requires assumphons of how the target market will respond to certain stimuli. It sertain stimuli. This means doubling back to the point where the basic marketing question was first asked of the product in its domestic market, i.e. what need does it satisfy? Added to this is the developed Third World countries they will not be the same. Howard and Mayo marketing Nestle's baby milk powder in Africa (See Figure 4.14)

A quite different from of adaptation is provided by the example of the joint venture in 1989 of Philips NV of the Netherlands and Whirlpool of the United States. However, Philips, while willing to sell and interest in its major appliance business was unwilling to sell its brand name. This posed the question of how business done under the Philips name could then be successfully transferred to another. Whirlpool decided to build upon its size, status and experience as the world's largest manufacturer of major appliances and so the media campaign that followed concentrated on the strengths of synergy attained in this joint venture between Whirlpool and Philips. A successful public relations campaign in the trade media and in the European business and financial press resulted in some 180 stories in the European media, mostly prasising Whirlpool for its move and explaining what Whirlpool brought to the branding equation. The message was continually reinforced that the value of the two parts, Whirlpool and Philips, was greater than their sum. Whirlpool was now building washing machines for the pan European market, manufacturing inNaples, Italy, for sale in twenty-five countries.

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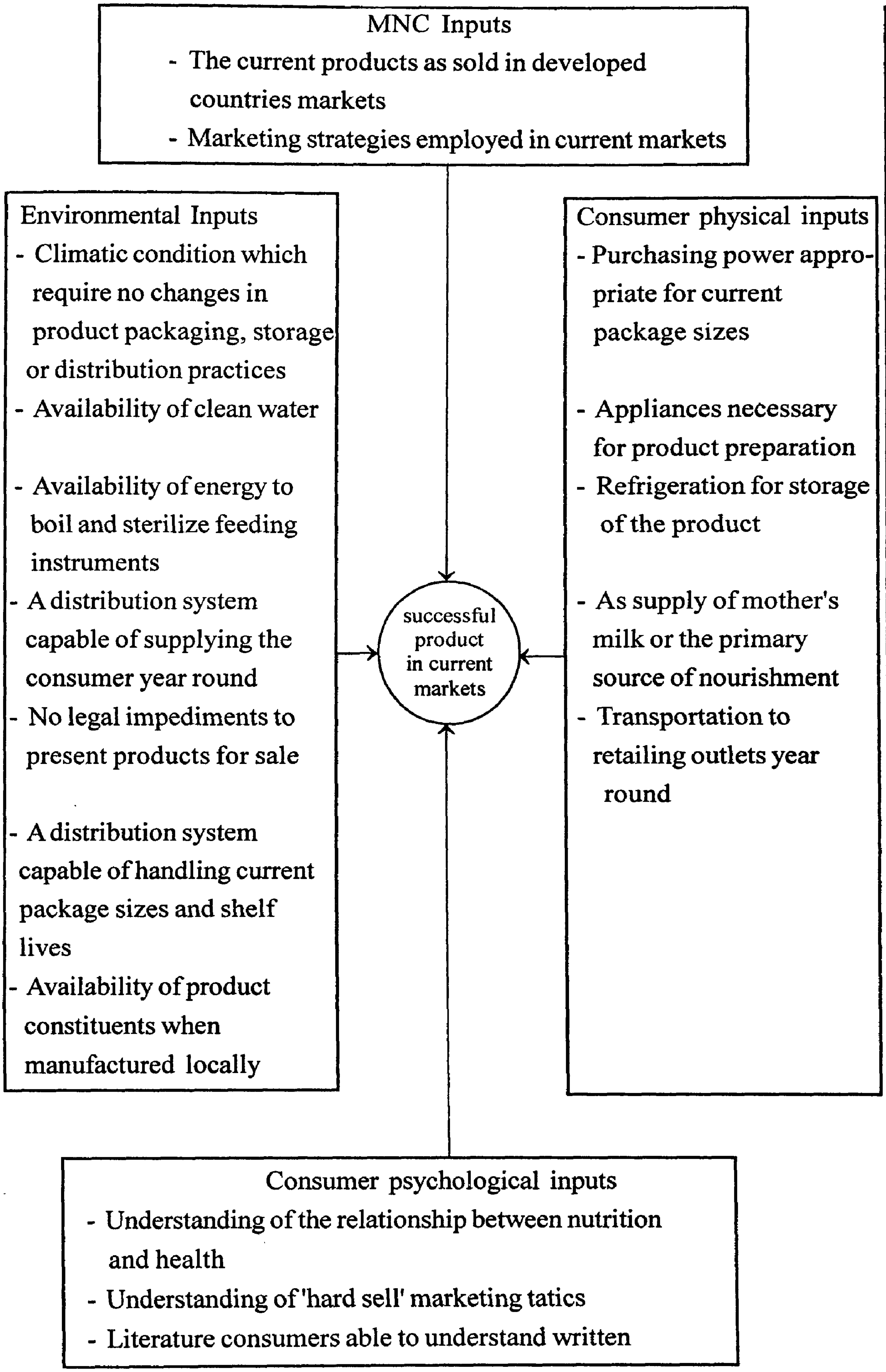
MNC Inputs
- The current products as sold in developed countries markets
- Marketing strategies employed in current markets
Environmental Inputs
- Climatic condition which require no changes in product packaging, storage or distribution practices
- Availability of clean water
- Availability of energy to boil and sterilize feeding instruments
- A distribution system capable of supplying the consumer year round
- No legal impediments to present products for sale
- A distribution system capable of handling current package sizes and shelf lives
- Availability of product constituents when manufactured locally
successful product in current markets
Consumer physical inputs
- Purchasing power appropriate for current package sizes
- Appliances necessary for product preparation
- Refrigeration for storage of the product
- As supply of mother's milk or the primary source of nourishment
- Transportation to retailing outlets year round
Consumer psychological inputs
- Understanding of the relationship between nutrition and health
- Understanding of 'hard sell' marketing tatics
- Literature consumers able to understand written

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product usage instruction
No sociocultural customs or taboos concerning the
product or its proper usage.

Figure 4.14 An application of the defence product management philosophy for Nestle. (D.G. Howard and M.A.Mayo, 1988, 'Developing a defensive product management philosophy for Third World Markets', International Marketing Review, 5 (1) pp. 31-40.

To penetrate the trade, Whirlpool used a strategy of adding value, from special sales incentives to improved stocking and distribution of spare parts, to totally new products. For consumers there was the introduction of customer assistance telephone lines on Whirlpool's North American model, plus the possibility of dealer and consumer financing options through the parent company. Both the helplines and the financing were new to Europe. Direct brandling with the Philips name was to continue only to 1999. It was decided that this would then be reviewed on a country-by-country basis as brand recognition for Whirlpool developed.

LOCAL CULTURAL INTERFACES

Differences between markets are important. It may be easy to get your product into a market, but the differences may then take over. For example, US product liability law is now a positive disincentive to export to the United States. Part of the material culture there is that, if a product does not work or, worse still, cause injury, the consumer will resort to legal redress. This situation has been brought about by generations suffering from poor product quality and poor dealer service at the local level the customer interface. A US car manufacturer such as Ford sells cars to its dealer and provides dealer support. From there the dealer is responsible for the car. The customer may complain to the manufacturer, but will be stonewalled for it is seen as the dealer's responsibility. This situation has both increased the legal ;industry to the size that it is today and provided foreign care manufacturers such as the Japanese, who focus on quality and a caring relationship with the consumer, with an important and very powerful competitive advantage in the US

market. US films are run by accountants and lalwyer: so there are plentiful opportunities for marketers not only to enter but ot suvveed in that market through creativity. The offering has to be right and it has to fulful its promise, for the legal consequences of noncompliance can quicly turn a successful, profitable venture into deficit.

NOTES

Society dose not change quickly, so societal trends that become apparent have to be acted upon and integrated speedily into the overall marketing programme. However, it also has remembered that society is composed of different groupings and sub-cultures and homogeneity is not as widespread as many would have you believe once you move on form the basic necessilties of life. Today, no matter where you live, a desire for food could be satisfied by pizza, or perhaps a Greek doner kekab, or an Indian curry or samosa, or a Middle Eastern falafel or may be just a McDonald's burger. The awareness already exists. What is changing is the way in which services are influencing our lives. To ensure standardization, companies such as Hilton or Sheraton impose controls that will ensure compliance with their standards, making their hotels uniform internationally at the same time. However, the art of making resercation of paying for a hotel, of booking a rental car (another global product) and requesting, a discount is another form of socialization of srevices that is affecting society across forontiers. Bank machines, the ATMs, are global and interact with banking systems worldwide. Retailers use electronic point-of-sale case tills which accept credit cards from any bank worldwide. As consumer expectations have increased, the market potential for further products and services continurs to spiral ever upwards, and for producers this becomes a search for 'low-cost excellence'. Robert C.Camp, manager of bench marking competency at Xerox Corporation, Rochester, NY, has shown how this concept bench marking may be operationalized (1992). It requires, first, knowing the company operatioin and being able to assess its strengths and weaknesses accurately, knowing industry leaders and competitors and finally, incorporating the best and gaining superiority by emulating the strengths of the best in the field and surpassing them. (See Figure 4.6)

NOTES

Celestial seasonings/Perrier to market ready to drink tea

Celestial Seasonings Inc., a leading herbal tea maker, is planning to plunge into lthe $400 million market ready-to-drink tea using domestic spring waters from Perrier Group of America Inc.

The First tea under the new licensing agreement will be available by July in California and the Northeast, officals of both companies said.

The teas will carry the Celestial Seasonings brand name but will be bottled and distributed under a licensing agreement with Perrier Group, probably with its Poland Springs, Calistoga, or Arrowhead brands of natural spring water.

The deal doesn't involve the Perrier brand, which is bottled in France and still trying to recover in the wake of the discovery that some of the water was contaminated.

The ready-to-drink idea the category is shaping up as one of the beverage industry's hotter segments.

A week before the Celestial Seasonings announcements, the Coca-Cola Nestle Refreshments Co. made a ready to drink iced version of the powdered Nestea, its first Us beverage.

The Tampa, Fla. based company was created almost a year ago by the world's biggest soft drink company, Coca-Cola Co., and the Swiss food giant Nestle SA to market coffee, tea, and chocolate drinks.

Last December, Pepsi-Cola Co. to distribute Lipton teas and develop new tea based beverages in the United States.

Lipton, which dominate the ready-to-drink tea category with an estimated 42 per cent share, previously had been distributed through a patchwork of so drink bottlers, including some from Coca-Cola.

Analysts said that the alignment of Coca-Cola and Pepsi-Cola, the second biggest US soft drink company, with specific brands of teas almost assures more repaid growth in the category for the next few years.

We are going to see a lot more action and a lot more money spent aganist the category, said Hellen Berry, vice-president of marketing at Beverage Marketing Corp., which advises companies about various types of drinks including teas.

'Consumers are looking for more ready-to-drink alternatives to soft drinks', she said. They are looking for healthy beverages or beverages that taste good. They are also looking for alternatives to alcohol of any kind.'

Celestial seasonings, a privately held company based in Boulder, Colo., sells about fifty different varieties of herbal teas in tea bags. Herbal teas generally contain no caffeine.

Celestial CEO Mo Siegel said five or six varieties are being tested to see which would be best suited to being sold iced and ready to drink.

Source: 'Celestial Seasonings/Perrier to market ready to drink tea' Marketing News, American Marketing Association, Chicago, 17 February 1992.

A well-educated society, ever more conscious of its rights and willing to assert them, is more wary of selecting amongst product offerings. Advertising alone is insufficient when there are consumer organizations and specialist magazines that provide benchmarking tests with competitive products. Value-added becomes the nature of the competitive responses and quality is just one part of that, in so far as quality in this sense will be 'perceived' quality, as perceived by the consumer and not 'objective' quality, i.e., the conformance simply to the manufacturer's standards. Some interesting points in this regard were made by a British professor of marketing, Stephen Parkinson, in his inagural lecture at Bradford University, when he said that quality is remembered long after the

price is forgotten and went on to explain the possible implications of quality as defined by engineers in terms of 'zero defects' (a term first used by US missile manufacturers!). In the United Kingdom, 99 percent accuracy would mean the following:

Results:

* Leadership position attained
* Practices fully integrated into process

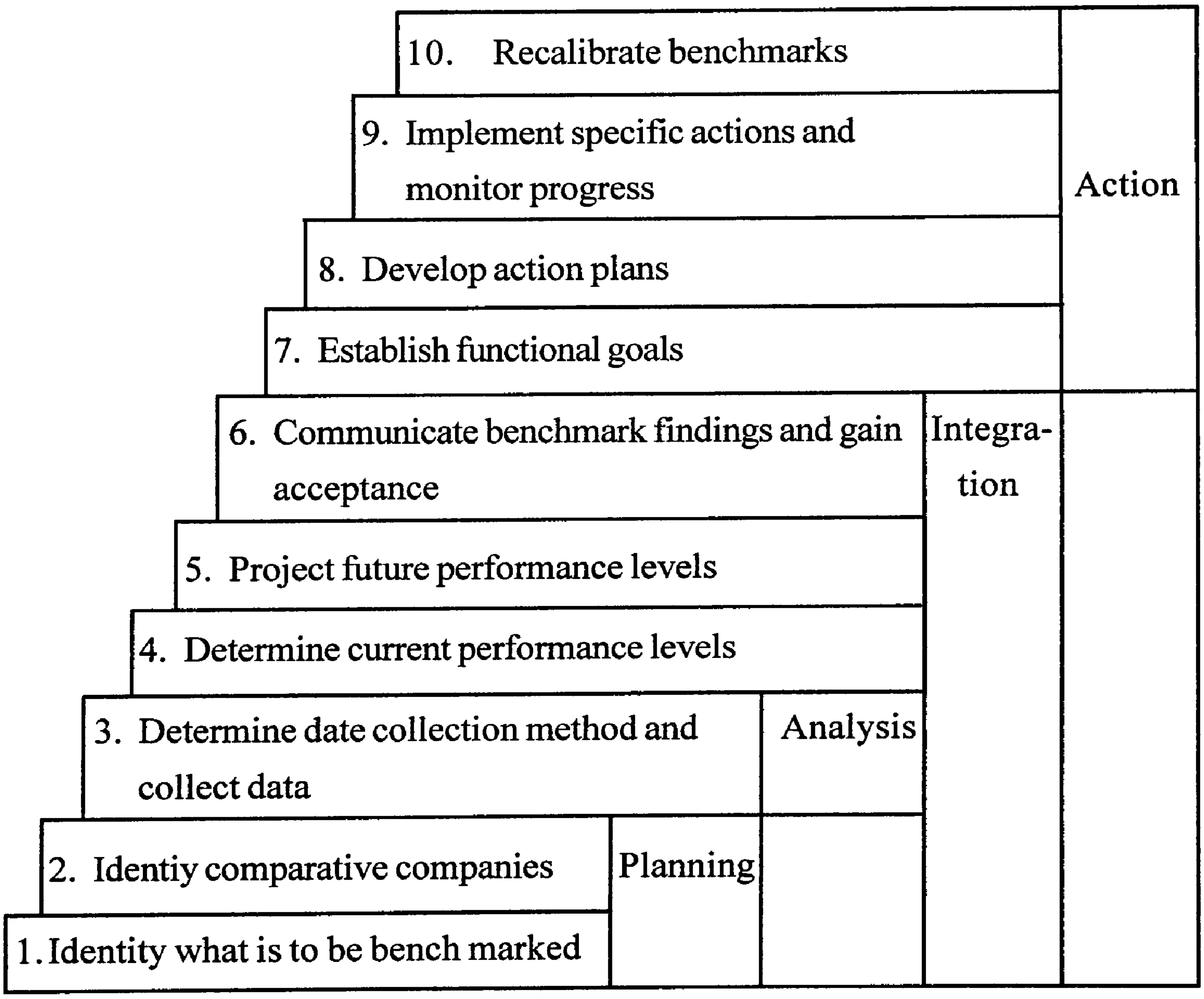

Figure 4.15: The benchmarking process (Source: Robert C.Camp, 1992, 'Learning from the best leads to superior performance, Journal of Business Strategy, 13(1), pp.3-6 1992, Journal Of business Strategy, Faulkner and Gray Publishers, New York, Ny. Reprinted with permission).

* At least 2000,000 wrong drug prescriptions each year.
* More than 30,000 newborn babies dropped by doctors or nurses each year.
* Unsafe drinking water for almost four days a year.
* No electricity, water or heat for fifteen minutes per day.
* No telephone or TV service for nearly fifteen minutes per day.
* Nine misspelled words on every page of a magazine.

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Finally, he asks would you be happy with a surgeon who could 'normally' find his way around your body?

Presumably, this enters into Maslow's hierarchy of needs at the safety level! Note, however, that this is at an industry level; it is just one company or a named clinic specializing in a particular area. The point that this makes effectively, and it is one of which we are only subconsciously aware, is that the provisions of utilities and services, particularly in health care, is generally very good. It is the absence of these expected standards that makes us complain. The advantage of brandling is that it makes services much more identifiable so that, in Britain, we may talk of BUPA or PPP in terms of what they offer the individual is the way of private health care. This may be an interesting example from an international perspective because in Britain, unlike the United States, health care is a right, and free access is a cornerstone of the post-war welfare state. Today in Britain, as elsewhere in Europe, an ageing population is putting pressure on a cash-starved system, creating opportunities for medical insurance companies to enter the market with plans targeted at specific professional groups. It is an ill wind indeed.

Elsewhere, we have to make a judgement as to the receptiveness of the local market to the brand name and whether that product or service may be transferred wholesale or not. Kosaka (1992) equated standardization with effectiveness and adaptation with efficiency.

Checklist : be aware

After-Sales service	This is the point at which your representation may be weakest: the ability to keep your products serviced and running in the foreign target market.
Branding	Is it descriptive of the product? Is it associative with the product? Memorable? Pronounceable? Does it stand alone? Does it tie in with company image? Is it registrable? Unique? Short? Does it say anything about the product? Is it appropriate? Does it sound sensible? Is it all persuasive? Is it modern and contempaorary or old and biblical? Does it have close copies? Have these others already been registered? Then think again.
Default strategy	The worst possible scenario is to be coasting along with the product line and have your competitors shapes your strategy for you.
Export product line	Initially, select a product appropriate for the market with a narrow focus, and plan ahead for new products.
Industrial property rights	What protection is there for trade names and patents? What legal redress is there in case of product piracycounterfeiting?
Labelling	Important legal as well as cultural implications. Local language may be mandatory. It not, ignore, otherwise you may lose the premium effect of a quality imported product. Dual language may be necessary. Country of origin may be requested, as may listing of all igredients.
Language	Still the area in which there is the greatest opportunity for humilation, whether in brand name, packaging, advertising or accompanying product literature.

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Legal	Product liability could be a real concern and source of company exposure, particularly in the United States. Distributor contracts providing exclusivity of sales area. Agency contracts and conditions for termination of same.
Local Market Conditions	The environment that you are to enter may affect how your business. Conditions affect what you can do, never mind what you hope to do.
Local Market expetations	May be incredibly high. Brand name may have been ver sold in terms of\service, durabilily of the product etc.
Local product Specificatioins	Ensure that local product specifications are being met.
Local suppliers	May buy goodwill, so determine possible sources of supply.
Measures	Metric or empirical measures.
Modification	Ensure that the product is sold only in the form as distributed by you and that the distributor does not alter, modify or change anything without prior written consent from you, the supplier.
Packaging	Is it the barrier properly or the silent sales person? Packaging can denote ' quality' or else 'no frills' value-added.
Pricing	Is there any particular value-added in the product offering (including accopanying service) which may fairly reflect a premium price?
Product quality variables	The eight dimensions of quality have to be rethought in in terms of the foreign target market: performance, features, reliability, conformance, durability, serviceablility, aesthetics and perceived quality.

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Quality for customers	Implement quality control procedures not just for as well as production products, but for customer service as well.
Register company name(s) and brands	Ensure that you, as the manufacturer or exporter, register and hold title to all trademarks, names and patents, and disallow the distributor/agency form doing so.
Translation	Ensure that it is a quality translation. Always employ a local national to ensure comprehension. American companies have this problem in the United Kingdom and vice versal.
Warranty	This may be continent-wide, as with cars. Warranty periods are generally increasing and so is coverage, as product quality increases.

Besides satisfying the statutory and social requirements, labelling should help promote sales. For example, in self service stores labelling should impart, to the extent desirable and feasible, the services of a salesman in informing and attracting the customers.

4.8 BUSINESS ENVIRONMENT AND PRODUCT STRATEGIES

A very important factor which influence the marketing mix strategy is the Business Environment.

The product strategies of a company is shaped, interalia, by the business environment. In Chapter 2, in several cases, what may appear to be trivial matters like colour brand name etc. may become very important factors which affect product success.

William Sugg of the Westing hous Electric International Company states that the problem which his company "encounters in marketing new as well as old products are strongly rooted in cultural differences from country to country. These take effect alone with economic and technical differences. Numerous product experiences confirm this. Because of the environmental differences, products which flourish in one market may fizzle elsewhere.

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It would be appropriate to cite the experience of two American Companies with marketing of cake mixes in the British market. Company A, the undisputed leader in cake mixes, failed in the British market while company B became successful. Company A executive relied on their SRC in assuming that the most popular American cake mix would also be popular in Britain. In fact the British eat most of their cakes with tea, not for dessert. The fancy iced cakes that Americans favour are generally considered extra special in Britain and are purchased from a bakery or "made from scratch" at home. Company A introduced their "easy" mix that was very popular with Americans, but the British felt it was just not goods enough for these special occassions. Company B executives had not relied on their (American) SRC but investigated the British market. They found that the most popular cake was a dry sponge cake and introduced that as an easy cake mix. Not surprisingly, by making a product for which the British expressed a need, Company B was quited successful.

It may also be noted that, sometimes a company may find the introduction of a better material a problem because of certain peculiar convictions of the consumers. For example, use of platic parts which are economic but sturdy can make two-wheelers cheaper. In fact, in foreign countries plastic parts are successfully used for two-wheelers. The original model of Kinetic Honda had plastic material in it (used for shield, mud-guard etc,) but the Indian company had to change those parts to make it clcik in the domestic markets as it was felt that Indians were averse to plastic parts.

There are may instances of national regulations prohibiting the marketing certain products. For example, Pepsi and Coca-Cola could not introduce the Diet Colas in India because two sweeteners used in the manufacture of Diet Colas internationally, namely, aspartame (APM) and acesulfame K (ASK) were banned for use in India. Similarly, regulations pertaining to environmental protection, child labour, health and safety etc. make the marketing of a number of products impossible or very difficult in several countries.

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In short, whether the same product without modification can be market in foreign countries or whether the product can be promoted the same way in different national markets or whether modifications are needed in the marketing mix depend on the marketing environment. Product modifications are called for when the use, conditions of use, tastes and preferences of the consumers, purpose of the use or need satisfactioin, regulatory environment, the buying capacity of the consumers etc. are not the same in the different markets.

Even when peopel of different cultures use the same basic product, the mode of consumption, conditions of use, purpose of use or perceptions of the product attributes may vary so much that product attributes, method of presentation, positioning, or strategy of promotion may have to be varied to suit the characteristics of different markets.

Chocolate provides an example. In France, Chocolate is used mostly in cooking. In Italy, chocolate is served as a snack to children, a slab of chocolate is placed between two slices of bread and a sort of sandwich is created. Germans, who appreciate the taste of pure chocolate, find both these other uses qutre unappealing. In short, the purpose and mode of use, Prefrerences etc. are very important factors to be considered in product planning and promotion, including positioning. Coffee provides another example. While coffee and tea are regularly consumed twice or more in a day in some countries, coffee and tea are considered luxury beverages in Japan where drinkers require not only aunthentic flavour and aroma but a good atmosphere - "Comport while drinking", "Pleasure of conversation", "a modern, urban atmosphere", etc. The annual per capital consumption of coffee in Japan is only half a gram compared to 18 pounds in Sweden. While in some countries coffee or tea is taken with lunch, in some countries it is taken in the early morning, with breakfast, and even in between during coffee/tea break. The type of product and the product from used, the method of brewing, the attribute preferences, mode of consumption etc. also vary between culture. In short, the purpose and mode of use, preferences etc. are very important factors to be considered in product planning and promotion, including positioning.

4.9 PRODUCT STRATEGIES

Broadly, there are three alternative product strategies between the dometic and foreign markets, viz., product adaptation and product development.

Product Extension:

Under the product extension strategy the same product as marketed domestically is extended to the foreign market without any significant modification. This is possible when certain significant factors like consumer tastes, product use conditions etc. are the same in both the home and foreign markets, Another important condition for this strategy is that there is no legal requirement necessitating product modificatiion for the foreign market.

Many companies now follow this strategy. They do business with globally standardised products (for deatails see the section Globalisation vs Standardisation).

This strategy is popular with companies with etnocentric and regiocentric/ geocentric orientations.

While in case of companies with regiocentric/geocentric orientation this strategy is part of the massive international business, in the case of the ethnocentric companies this is a strategy for some additioinality in business with logical incrimination, i.e., without any significant deviation from the traditional line of business.

An example of the ethnocentric company employing the product extension strategy is an Indian firm selling Indian curry powders, pickles etc. to the ethic population (i.e., Indians) abroad. Similarly, some Indian mixies like Sumeet mixie like Sumeet mixie fitted with powerful motoi to do heavy duty work like grinding rice, dal etc. are very popular with Indian's abroad.

Ethnocentric firms may employ this strategy by identigying suitable market riches abroad.

True or False:

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1. Product strategy involves the managerial decisions about the product mix and the positioning and communication. (True/False)
2. Product planning, used in a broad sense, involves only the product strategy described above but also the product development measures. (True/False)
3. Market testing would help the management to decide whether the new product. (True/False)
4. The product invention strategy involves the development of new product suitable for tapping foreign market. (True/False)
5. An important issue in international marketing is globalisation Vs localization or standardisation Vs customisation. (True/False)

Answer:

1. True 2. False
3. True 4. True
5. True

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More about the product extension strategy is given in the straight extension strategy under the product-communication strategies.

Product Adaptation

Under the product adaptation strategy, the product is properly modified to suit the environment of the foreign market. Important factors which necessitate such product modification for the foreign market vis-a-vis the domestic market are:

Difference in the consumer tastes, consuming habits etc.

Differences in the conditions of use of the product.

Differences in the use facility characteristics.

Differences in the purpose of use of need satisfaction.

Differences in the cultural environment.

Differences in the natural environment like geo-physical characteristics, weather/climatic, conditions etc.

Differences in the regulatory environment.

Differences in income levels and standard of living.

Differences in the competitive environment.

In several cases, considerable and appropriate modification of the product is required to make it suitable for the foreign market. The Being presents very good example of success in foreign markets by suitable product modification. In the 1970s, the sales of the Boeing 737 began to tail of because of decline in orders from the airlines of developed countries like the U.S. Therefore, the company turned its attention to the under developed countries, mainaly the Middle East, Africa and South America. But in needed to adapt the plane to the idiosyncrasies of the Third World aviation. The company redesigned the wings to allow shorter landings and added thrust to the engine for quicker

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takeofs. It also redesigned the landling gearand installed low pressure tyres so that the plane would stick to the ground when it touched down. The gambit worked. The company sold one or two 737 at a time to airlines throughout the world compared to batches of 20 or 30 to the U.S. Airlines in the past. As fledgling Third World airlines grew, they began buying Boeing's larger planes. Recently, the 737 became the best selling commercial jet in the history.

Audco India Ltd., a leading manufacturer of industrial values in India, carried out minor product adaptation in the form of redesign, patterns and tooling to suit the exclusive requirements of customers in the U.S. Establishment of recognised quality management system was essential to inspire confidence in the users. With training conducted by experts from P.E. Betalas, Audco implemented quality management system as per ISO 9000 standard. Inspection and testing and testing of the valves was undertaken at laboratories in USA which wer approved by major buyers. For valves used in the oil production industry., licence and authority to use API (American Petroleum Industry) monogram was a prerequisite.

Similarly, for marketing the hand tools in the U.S. Mascot India has to upgrade the product quality. It had to change from carbon steel to chrome vanadium. Market specific packaging was developed by appointing a packaging consultant.

Many Indian products had undergone quality upgradation and other modifications to enter the foreign markets. Marketing research enables a firm to indetify the type of product modifications required. Sometimes detailed product specifications are provided by the foreign buyer.

More about product adaptation is given in the sectioin Product- communication strategies.

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Product Development

Many firms develop new products for the foreign market. As pointed out elsewhere in this chapter, from the point of view of a firm, there are three types of new products, viz., (i) an innovative product, i.e., product which is quite new to the market, (ii) an imitative product, i.e., product which is already in the market but new to the company product mix; and, (iii) a significantly modified product (of either the company or others).

An innovative product serves an unserved need of the consumer or serves a need better, in some way, than existing products.

A firm may enter the market with the same sort of products as marketed by other companies if it can have some edge over the competition in respect of price, promotion, distribution or product.

A number of opportunities exist for developing country firms to enter the foreign market with limitative products because of the production cost advantage they enjoy.

In many cases a significant modification of the existing products provides and opportunity for international marketing, In several cases the new product development which is significant modification of the existing product and product adaptation amount to one and the same.

Many innovative products can have the advantage of the monopoly power conferred by patent protection. Many firms interested in foreign markets try to identify potential market segments and develop suitable products.

4.10 PRODUCT - COMMUNICATIOIN STRATEGIES

In international marketing product and communication strategies are usually, considered together because the need satisfaction, purpose of product use or usage occasion and the product communication are rather inseparable. Keegan has identified the following five alternative product communication strategies in international marketing with reference to modification of product and communicatioin (i.e., promotional theme).

Straight Extension

The theme of the straight extension strategy is one product, one message, world wide. In other words under this strategy, the firm markets the same product and communicates the same message in all the markets. This strategy has been successfully employed by Pepsi. In every country in which it operates, Pepsi sells exactly the same product, and does it with the same advertising and promotional themes and appeals that it uses in the United States (except in India where it has been recently introduced).

Two important sources of cost savings are associated with this strategy. There are considerable manufacturing economies of scale and elimination of R & D costs. Further, substantial economies are associated with the standardisation of marketing communications. Pepsi Co. international marketers had estimated, for example, that production costs for specially

prepared advertising for foreign markets would be $8 million perannum, which was considered more than the amounts spent by them for advertising the product these countries. India is probably the only country where a commercial was made locally with local stars (Remo Femandez and Juhi Chawla). Even in China when the Pepsi was introduced, the commercial was an international one. The approximate cost of production of the commerical for product launch in India was Rs.40 lakhs.

The product-communications extension strategy would prove successful for products like soft drinks. Pepsi Cola and Cola are living testimonials to this fact. However, this easiest strategy will not succeed in many cases. For example, when Campbell tried to sell its U.S. tomato soup formualtion to the British, it discovered, after considerable looses, that the English taste was different.

As Keegan suggests, the product-communications extension strategy may be successfully employed only if the product function (need satisfaction) and the conditions of the product use are the same in all the markets, and the customers in all the markets have the financial capability of buying the product at the same price.

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Product Extension; Communicatioins Adaptation Strategy:

Under this strategy, the firm markets the same product but employs modified communication about the product in foreign markets. For example, bicycles are used mainly for sporting and exercising in several developed countries, but in many other countries of the world they provide basic transportation. When this strartegy is employed, the communication appeal used in the foreign markets would be quite different, depending upon the particular products use that is promoted.

In effect, when this approach in pursued (or, as is often the case, when it is stumbled upon quite by accident), a product transformation occurs, points our Keegan. The same physical productends up serving a different function or use from that for which it was originally designed. An actual example of a very successful transformation is provided by a US farm machinery company, which decided to market its US line of suburban lawn and garden power equipment as agricultural implements in less developed countries.

The appeal of the product-extension, communications adaptation strategy is its relative low cost of implementation, for it involves only communication changes.

Product Adaptation, Communications Extension Strategy

Under this strategy, essentially the same promotional message is used abroad as at home; but the product is modified to suit the foreign market conditions. This strategy assumes that the product will serve the same function in foreign markets under different use conditions. Esso followed this approach when it adapted its gasoline formulations to meet the weather conditions prevailing in foreign market areas, but employed without change its communications appeal "Put a Tiger in Your Tank". Many manufacturer vary the size or contents of their goods, like fertilizers or clothing or appliances to meet local conditions.

Of course, this strategy involves expenditure on R&D, and additional engineering and production costs; but in the long run, it many be better than introducing an unaltered product having less appeal.

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Dual Adaptation

The dual adaptation strategy involves a modification of both the product and communication to meet the foreign needs and considerations of the foreign market. This strategy is called for when differences exist in the environmental conditions of use and in the function which a product serves. For example, the National Cash Register Company took an innovative step backward by developing a crank-operated cash register that would sell at half the price of a modern cash register. They developed special advertising that emphasised its low cost. This unit caught on greatly in the Philippines, the Orient, Lain American and Spain.

Dual adaptation is very expensive but is worthwide if markets in the various countries promise to be large enough.

Product Invention

The product invention strategy involves the development of new product suitable for tapping foreign market. For example, low cost products may have to be developed for two income countries. A product invention strategy may even mean "investing backwar". This was the case when a leading manufacturer of mechancial washing machines was asked to apply in know-how not to produce a better automatic machine, but to develop a better manual washer. The result was an inexpensive($10) hand-powered plastic washer with the tumbling action of an automatic machine.

In sum, as Keegan points out, the choice of product and communications strategy in international marketing is a function of three key factors.

The product itself defined in terms of the function or need it serves;

The market defined in terms of the condition under which the product is used, including the preferences of potential customers and their ability to but the products in questions; and

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The cost of adaptation and manufacture to the company considering these product communications approaches.

Table - 4.3

MERITS AND DEMERITS OF DIFFERENT PRODUCT - COMMUNICATION STRATEGIES

	Merits	Demerits
Straight Extension	1. Economic of scale in Production 2. No additioinal investment in R & D 3. No additional expenditure on development of commercials	1. Not suitable when the marketing environments are different 2. Not suitable when the satisfaction or purpose of use of the product is different.
Product Extension Communicatioin Adaptation	1. Economics of scale in production 2. No cost of product modifications 3. The appropriate strategy in certain situations.	1. Costs of communication modification
Product Adaptation Communication Extension	1. Helps to increase product acceptance	1. R & D costs 2. Costs of product modification. 3. High costs of production if level of demand does not permit economies of scale in production.

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Dual Adaptation	1. Most suited strategy	1. R & D costs 2. Costs of product modification 3. Cost of communication modification 4. High cost of production if level of demand does not permit economies of scale in production
Product Invention	1. Advantages of a	1. Costs of marketing right product for research the market 2. Costs of innovation and product development 3. Costs of new product promotion and market development

4.11 GLOBALISATION Vs LOCALISATION

An important issue in international marketing is globalisation vs localization or standardisation vs customisatioin. The issue, in other words, is whether a company should follow a strategy of geocentrism or polycentrism. The question is whether all the markets should be regarded as a single homogeneous market that can be successfully tapped with a globally standardised marketing strategy or whether there should be specifically designed strategy for each of the distinvtive market.

As Sand remarks, in literal sense, multinational standardisation would mean the offering of identical product lines at identical prices through identical distribution systems, supported by identical promotional programs, in several different countries. At the other extreme, completely "localized" marketing strategies would contain no common elements what so ever. Obviously neither of these extremes is feasible or desirable and in practical marketing these terms are not used in the literal sense. In

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many cases, the issue boils down to what extent localisation or strandardisatioin in appropriate. In a number of cases, what is appropriate in neither localisation not globalisation but regionalisation.

The most staunch advocate of globalisation is Theodore Levit who has indeed been described at the guru of global marketing and the champion of world brands. According to Levitt, "the world is becoming a common market place in which people - no matter where they live - desire the same products and lifestyles. Global companies must forget the idiosyncratic differences between countries and cultures and instead concentrate on satisfying iniversalk drives.

Citing the examples of many high-tech and high-touch standardised products being sold in the same way everywhere, Levit argues that, "Word's needs and desires had been irrevocably homogenized and that this makes the multinational corporation obsolete and the global corporation absolute".

While "the multinational corporation opoerates in a number of countries and adjusts its products and practices in each - at a high relative cost, the global corporation operates with resolute eonstacy - allow relative cost - as if the entire world (or major regions of it) were a single entity, it sells the same things the same way everywhere".

Levitt further argues that the modern global corporation contrasts powerfully with the aging multinational corporation. Instead of adapting to superficial and even entrenched differences within and between nations, it will seek sensibly to force suitably standardised products and practices on the entire globe. They are exactly what the world will take, if they come also with low prices, high quality, and blessed reliability. The global company will operate, in this regard, precisely as Henry Kissinger wrote in year Upheaval about the continuing Japanese success - "Voracious in its collection of information, impervious to pressure and implacable in execution".

The following developments tend to favour globalisation:

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(i) Technological Advance:

It is argued that the proletarinaization of communication and travel by the technological revolution drives the world toward a converging commonality.

The very fast changes in technology also make products obsolute very soon, i.e., the product life cycle is very short in many cases. Customization involves time and the resultant delay in introducing the product in different markets may make the product life cycle even more shorter in an environment of fast changes and come in the way of fast recouping the cost of products with short life cycles due to technological obsolescence or other reasons like changes in fashion.

(ii) Trave and Communication:

Transnational travel encourages globalisation in two ways. First, it helps diffusion of product information. Second, transaction travellers become customers for a product in different countries. Internatioinal migration also has similar effects.

Developments in the field of education and communicatioin have a tremendous impact on product promotion. The spread of English education has increased the international circulation of English publications. Media from one country - newspapers, magazines, radio, T.V. etc. - may reach audience in many other countries. For example, consider the following cases.

German television broadcasts are reveived by 40 per cent of Dutch homes with T.V. sets.

Paris March has a circulation of 85,000 in Belgium, 26,000 in Switzerland and a substantial readership in Luxembourg, Germany and Holland.

On an average day, over 4 million French housewives tune in to Radio Luxembourg, the same broadcast reaches 620,000 Belgian housewives, 30,000 in Switzerland, and 1000,000 in Holland.

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In short, "World-wide communications carry everywhere the constant trumbeat of modern possibilities to lighten and enhanve work, raise living standards, divert and entertain. The same countries that ask the world to recognise and respect the individuality of their cultures insist on the wholesale transfer of them of modern goods, service and technologies". As far as comforts of life are concerned, people's attitudes are becoming more and more secular.

(iii) Product Image:

Consumers are becoming more price and quality conscious. "Competitions in the 1990s will not be marketing magicians. They will rely on two rather universal needs of their customers - reliable products and low prices, Standardisation makes production more cost efficient, leading to low prices. Standardisation reduces costs because of the economies of scale in production, distribution, marketing and management into reduced world prices, the corporation geared to standardisation can decimate competitors that still live in the disabling grip of old assumptions about how the world works".

(iv) International Standards:

They laying down of international standards for many products also encourage standardisation. Many such industrial products which perform the same function everywhere lend themselves for standardisation.

There are, thus, several factors which tend to encourage globalisation, Levitt feels that standardisation can help expand the market. "When the global producer offers his lower costs internationally, his patronage expands exponentially. He not only reaches into distant markets, but also attracts customers who previously held to local preferences and now capitulate to the attractions of lasser prices. The strategy of standardisation not only responds to world wide homogenized markets but also expands those markets with aggressive low pricing."

4.12 KEY TERMS

* Dual adoptation
* Core product
* Product communication

4.13 SUMMARY

International product decision, product mix, product life cycle, new product development, business environmnet, product strategies, product communication strategies are dealt with in details in this chapter.

4.14 MODEL QUESTIONS

Section - A

1. Explain Market Segment Decision.
2. Give details about Product Mix Decision.
3. Explain briefly new product development
4. Explain business environment and product strategies
5. Describe product communication strategies.

Section - B

1. Explain Standardization.
2. Describbve the adaptation.
3. Write short notes on Globalisation Vs Localisation.
4. What are the steps in new product development?

NOTES

True or False:

1. Product strategy involves the managerial decisions about the product mix and the positioning and communication. (True/False)
2. Product planning, used in a broad sense, involves only the product strategy described above but also the product development measures. (True/False)
3. Market testing would help the management to decide whether the new product. (True/False)
4. The product invention strategy involves the development of new product suitable for tapping foreign market. (True/False)
5. An important issue in international marketing is globalisation Vs localization or standardisation Vs customisation. (True/False)

Answer:

1. True 2. False
3. True 4. True
5. True

LESSON – 5

EXPORT PRICING

STRUCTURE

5.0 Introduction
5.1 Unit Objectives
5.2 Exporter's costs
5.3 Types of cost in export marketing
5.4 Pricing objectives
5.5 Factors affecting pricing
5.6 Pricing methods/.approaches
5.7 Calculation of BEP
5.8 Steps in pricing
5.9 Information requirements for export pricing
5.10 Key Terms
5.11 Summary
5.12 Model Questions

5.0 INTRODUCTION

Right price is one of the important determinants of business success. Right price, however, does not necessarily mean a low price. What is the right price will depend upon a number of factors like the nature of other elements of the marketing mix, nature of the market, including demand and competitive situations. The price has to be consistent with other elements of the marketing mix. At the same time it has to be very responsive to the demand.

The uniqueness of price in the marketing mix is that it is the only element that generates revenue all other elements of the marketing mix incur costs. It should, at the same time , be appreciated that the other Ps are also designed to help the firm to realize revenue through an appropriate, comprehensive, marketing strategy, of which the pricing strategy is an ingredient.

At the outset one may think that price must cover at least the full cost of production and marketing. If that were always the case, there would not have been firms incurring losses. Demand or competitive conditions sometimes make the absorption of the full cost into price impossible.

Sometimes companies price the product very low, even below the full cost, within certain specific objectives like market penetration, using price as a strategic marketing variable to achieve the firm's objective. It has been observed that in foreign markets the strategy of Japanese firms, in general, was to build market share rather than early profits.

Sometimes the low price is the result of the predatory strategy. This is a practice of temporarily selling at price below cost with the intention of driving out existing competitors or warding off new competitors. Predatory pricing is a restrictive trade practice under that MRTP Act.

It is common with firms having idle capacity to adopt marginal cost pricing (that is considering only the variable costs – costs of labour and material which directly go into the production of the product concerned – and ignoring the fixed cost) to facilitate the utilization of the idle capacity.

5.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* The factors affecting pricing
* Pricing objectives and steps
* Information requirements for export pricing
* The export cost and export marketing

5.2 EXPORTER'S COSTS

Cost obviously, is one of the most important considerations in export pricing. Export prices, like domestic prices, are determined by the cost and supply conditions and the demand and competitive conditions. The cost and supply conditions dictate the minimum price the exporter must get while the demand and competitive conditions determine the maximum price he can charge.

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Pricing for export market, however, is more complex and difficult than for the domestic market. Export pricing will have to accommodate into itself the trade practices and the regulations of the overseas market. Export prices should take into account of additional cost involved in respect of packaging, packing, labeling, marking etc., transportation and storage, covering export risks and so on. Export incentives, like duty drawback, may also influence the export prices. Export pricing, thus involves the careful consideration and incorporation of a variety of factors.

5.3 TYPES OF COST IN EXPORT MARKETING

There are broadly two types of cost in export marketing, namely,

(i) Production costs; (ii) Selling and delivery costs.

Production Costs

There are two types of cost in production, namely,

(i) Fixed Costs; (ii) variable Costs.

Fixed costs

Fixed cost are costs which remain fixed irrespective of the level of production, like investment in land, building and plant and machinery. Besides these, there may be some other types of fixed costs. For example, even if there is no production, some people may have to be employed to look after the factory and premises and there may be some minimum fixed expenses like electricity costs etc.

Fixed cost is the cost which remains the same over a range of output. That is the total fixed cost remains the same whether there is no production at all

or whether there is maximum possible level of production.

As the production increases, the average fixed cost per unit falls. For example, if the total fixed cost is Rs. 10 lakhs, the average fixed cost per unit will be Rs. 10 lakhs if the production is only one unit but will be Rs. 5 lakhs if output is two units and Rs. 1 lakhs if output is 10 units. If output is 100 units the average fixed cost per unit will be Rs.10, 000 and it will be only Rs. 1,000 if the production is 1,000 units. In Fig.5.1, TFC represents the total fixed cost and AFC represents the average fixed cost per unit.

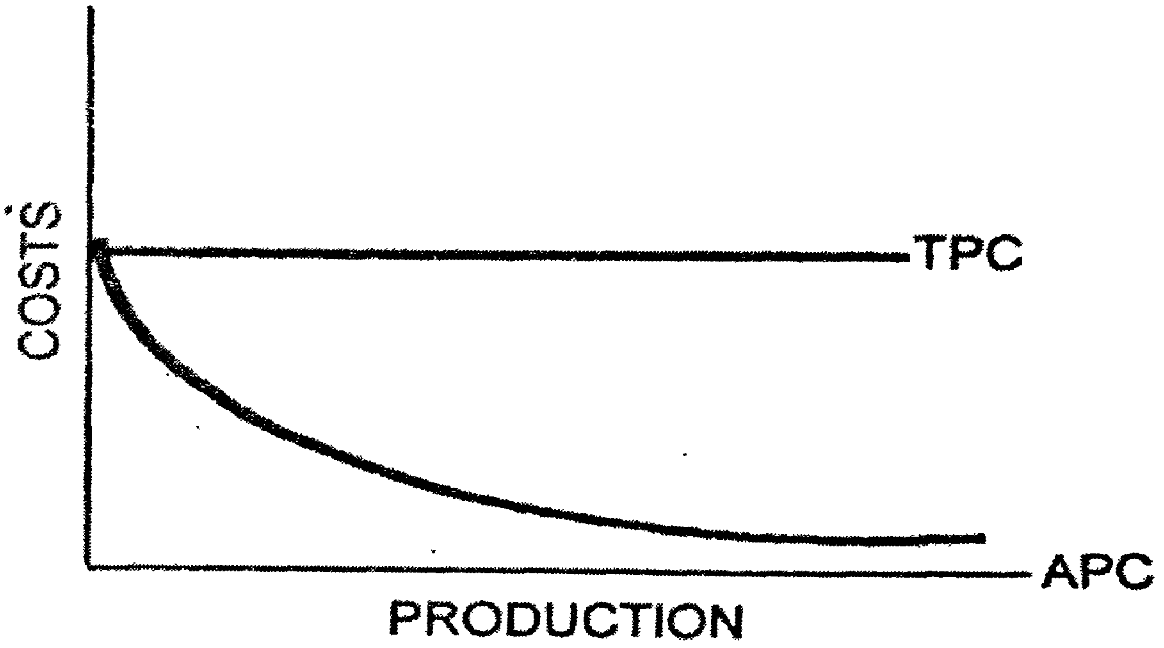

Fig.5.1 Total Fixed Cost and Average Fixed Costs.

Variable Costs

Variable costs are a cost which vary with the variation in the level of output and includes costs of factors like labour, material etc. Although the average variable cost per unit may remain same for different levels of output, the total variable cost will vary with the level of production.

In Fig. 5.2 TVC represents the total variable cost for different levels of output.

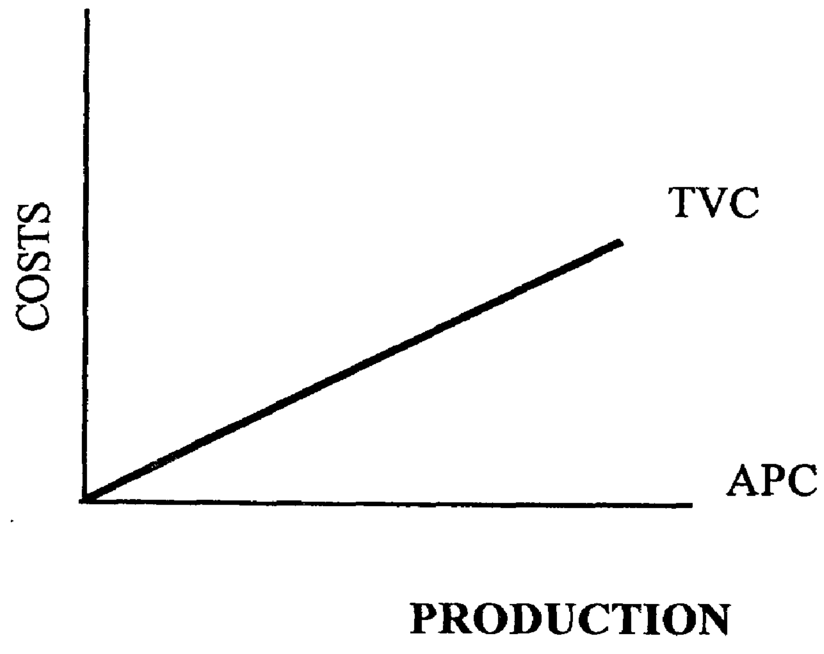

Fig. 5.2 Total Variable Cost

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In Fig.5.3, FC represents total fixed cost and TC represents the total cost (fixed cost + variable costs) for different levels of output. The gap between FC and TC represents the total variable cost at different production levels.

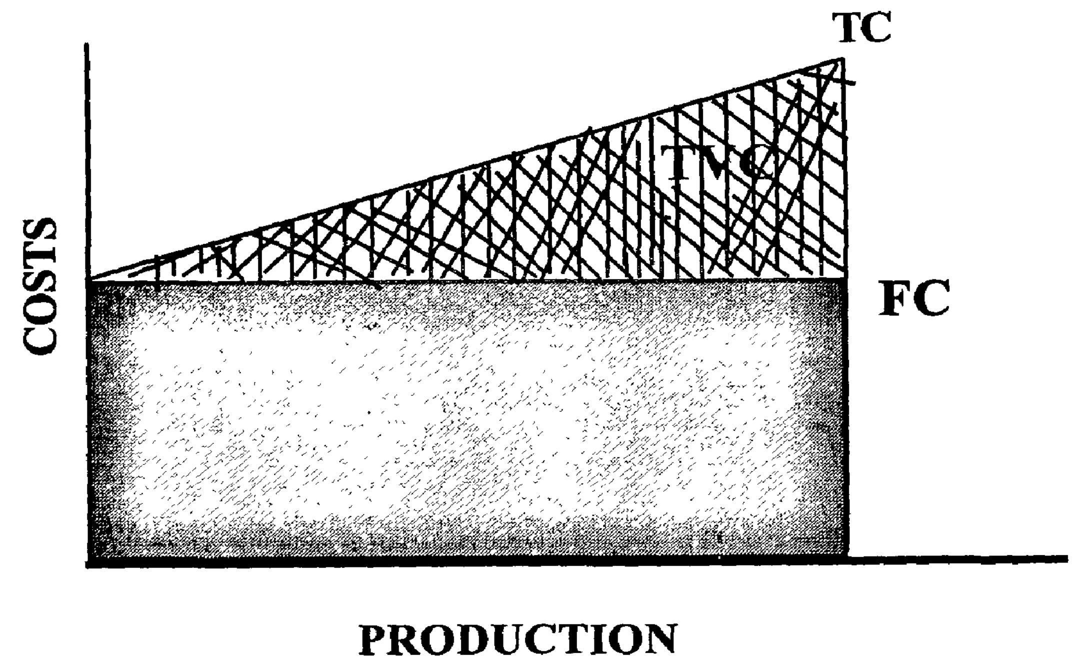

Fig. 5.3 Fixed Costs, Variable Costs and Total Cost

As fixed cost is cost which is already incurred, it remains there even if there is no production. Hence, sometimes (for example when there is idle production capacity) the price may be decided taking into account only the variable costs. This is known as marginal cost pricing, which is detailed later in this chapter.

Selling and Delivery Costs

Besides the production costs, there are several other costs which an exporter may incur and sometimes this is an important or even more important than the production costs.

The selling and delivery costs include the cost of holding stocks, packing transport, documentation, preshipment inspection, insurance and marketing costs like costs of advertising, personal selling etc.

Selling and delivery costs may also be divided into fixed and variable costs. For example, salesman's salary is fixed cost, while his commission and travelling and incidental expenses are variable costs.

Variable costs are also known as direct costs (or primary costs) because they vary directly with the variations in the level of production.

Cost which cannot be directly apportioned to any product, like costs of plant maintenance, lighting etc. are called indirect costs.

5.4 PRICING OBJECTIVES

Price is a strategic marketing tool to achieve certain objective(s). the pricing objective, naturally, is one of the very important determinants of price. A firm's pricing policy may be guided by any one or more of the following objectives:

(i) ***Market penetration:*** Market penetration may be a very important objective particularly for new exporters. A firm may attempt to penetrate the market with a low price.

(ii) ***Market share:*** The price may be manipulated to increase the market share. In many cases it is a corollary of market penetration.

(iii) ***Market skimming:*** This is often the case with innovative products. The product is introduced with a high initial price to skim the cream of the market. The price may be subsequently reduced to achieve greater market penetration.

(iv) ***Fighting Competition:*** Sometimes price is a tool to fight competition. A price reduction by the competitor may have to be countered by price cuts. Sometimes price cuts may be affected to discipline the competitor to compel the competitor to reduce prices so that his cash flows will be affected.

(v) ***Preventing New Entry:*** A firm may charge a low price even when there is scope for high price so that the industry does not look very attractive to new entrants.

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(vi) Shorten Pay-back period: When the market is uncertain and risky because of factors like swift technological changes, short product life cycles, political reasons, threat of potential competition etc., recouping the investment as early as possible would be an important objective.

(vii) Early Cash Recovery: A firm with liquidity problem might give priority to generate a better cash flow. Hence, it would adopt a pricing that might help it to liquidate the stock and/or encourage prompt payment by the channel members or buyers.

(viii) Meeting Export Obligation: A company with specific export obligation may be compelled to adopt a pricing policy that enables it to discharge its export obligation. Sometimes it may even imply a price lower than the cost.

(ix) Disposal of Surplus: A company confronted with a surplus stock may resort to exporting to dispose of the surplus. In such cases, exports sometimes takes the form of dumping.

(x) Optimum Capacity Utilisation: Exporting is sometimes resorted to enable the firm to achieve optimum capacity utilisation so as to minimise the unit cost of production. In such a case, achieving the required quantity of exports could be the objective of export pricing.

(xi) Return of Investment: Achieving the target rate of return is the most important pricing objective in a number of cases.

(xii) Profit Maximization: In many cases, the primary pricing objective is maximisation of profits.

5.5 FACTORS AFFECTING PRICING

The important factors affecting pricing policy decision are the following:

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International Marketing Objectives

The objective of marketing is a very important factor determining the price. For example, when the objective is market penetration, the price charged may be low. Similarly, when a firm exports to make use of the excess capacity, marginal cost basis may be adopted for pricing. But if profit maximisation in the short-run is the objective of a firm having good domestic demand for its products, it would not export at a price which does not provide a profit margin at least equivalent to that on the domestic sales.

Costs

The pricing decision, quite obviously, is influenced by the costs – the fixed and variable costs of production and the transportation and marketing costs. Although in the short-run, in certain situations the export price may be lower than the full cost, in the long run a firm which exports a substantial share of its production is normally expected to cover the full costs.

The flexibility a firm can enjoy in pricing depends to a large extent on its cost efficiency, i.e., how favourably its fixed and variables costs compare with those of the competitors.

Competition

Competition is a very important factor affecting pricing. A monopolist normally has high degree of freedom in pricing. That is why patented products could be sold at high prices. The severe the competition the lower the pricing freedom.

Product Differentiation

The extent of product differentiation is another factor influencing price. This is infact an aspect of competition. If the company's product is highly differentiated than those of the competitors or if the product has some strong unique features, the company will have more freedom to manipulate the price.

PRICING OBJECTIVES:

i) Market penetration,
ii) Market share,
iii) Market skimming,
iv) Fighting Competition,
v) Preventing New Entry,
vi) Shorten Pay-back period,
vii) Early Cash Recovery,
viii) Meeting Export Obligation,
ix) Disposal of Surplus,
x) Optimum Capacity Utilisation,
xi) Return of Investment,
xii) Profit Maximization,

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Exchange Rate

The exchange rate of the currency may also influence pricing. For example, if the Rupee is steadily appreciating the Indian exporter would be constrained to quote high dollar prices because an appreciation of the rupee means a fall in the rupee realisation for every dollar earned by exports.

Market Characteristics

Apart from competition, there are certain other market characteristics which are relevant to pricing. They include:

1. Demand trends
2. Consumer income levels
3. Importance of the product to the consumers
4. Trade characteristics like trade margins.

Image

The price which a firm may change also depends on the image of the firm and the country. It may be easier for a well reputed firm to charge a higher price than others. Pricing freedom also depends on the image abroad of the country. India has a poor quality image abroad, in general, even in comparison with some other developing countries. The poor quality image comes in the way of obtaining a better price.

Government Factor

Export pricing is sometimes influenced by Government policies and reguations. The government influence on export pricing may take any one or more of the following forms.

Regulation of Margins: sometimes the Government may dictate the margins or markups by the producers or distributors. The marketers, thus, lose, by and large, the freedom in pricing.

Price Floor and Ceiling: There are a number of cases in different countries involving price floors and ceilings. When there are such regulations, the price shall

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not fall below the floor price or shall not exceed the price or shall not exceed the price ceiling as the case may be. Until recently several textile items were subject to minimum export price (MEP) in India.

Subsidies: with a view to making export price competitive, government sometimes grants subsidies. A subsidy enables the seller to reduce his price to the extent of the subsidy without incurring any loss. For examples, in India, certain select export items were eligible for Cash Compensatory Support (CCS)

Tax Concessions and Exemptions: In countries like India, the export sector enjoys certain tax benefits which help to quote a lower price for exports. For example, under the duty draw back scheme, an exporter is entitled to refund of certain specified duties he has paid liked import duty or excise duty on raw materials used in export production.

Other incentives: A number of other incentives and assistances like cheap credit, supply of raw materials etc., at regulated prices, marketing assistance, etc., may also influence export prices.

Government Competition: Government may even compete directly in the market to control prices. For example, the US Government could effectively combat the increase in aluminum prices by three companies by announcing the government's decision to release two or three hundred thousand tones of aluminum from its strategic stockpile.

Taxes: Taxes like customs duties also influence export pricing. For example, an import duty in the foreign market may compel the exporter to reduce the price if the foreign market will not take a high price, because duty will have the effect of increasing the price in the foreign market. So, to maintain a particular consumer price, the price the exporter gets will have to be reduced when there is an impost or increase of import duty. An export duty also may have similar effect. Governments often impose countervailing import duties to combat dumping, export subsidy, etc.

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International Agreements: International prices of certain commodities are sought to be controlled by means of international commodity agreement like quota agreements, buffer stock agreements and bilateral/multilateral contracts as explained in Chapter 2.

5.6 PRICING METHODS/APPROACHES

Different methods or approaches are followed in export pricing. A brief account of the common methods is given below.

Cost Based Pricing

Cost based pricing, also known as cost plus pricing, is a common method of pricing. Under this method the price includes a certain percentage of profit margins on the sum total of the full cost of production, marketing costs and an allocation of the overheads. That is, price = [fixed costs + Variable Costs] + overheads + marketing costs)] specified percentage of the total costs.

Advantages

Advantages of the cost plus approach are:

(i) It covers all the costs

(ii) It is designed to provide the target rate of margin.

(iii) It is, generally, a rational and widely accepted method.

(iv) It is an easy to comprehend and simple method.

Disadvantage

The cost based pricing, however, has several disadvantages:

(i) The cost calculations are based on a predetermined level of activity. If the actual level of activity varies from this estimated level, the cost may vary, rendering this method unrealistic.

(ii) The cost factors of the follower may not be similar to that of the competitors, this method would render the firm uncompetitive in relation to price.

(iii) Another drawback of the cost plus method is that sometimes the opportunity to charge a high price if foregone.

(iv) It ignores the price elasticity of demand.

(v) The cost based pricing would not be helpful for some of the objectives or tasks like market penetration, fighting competition etc.

(vi) It imparts an inbuilt inflexibility to pricing decisions.

Market Oriented Pricing

This is a very flexible policy in the sense that it allows the prices to be changed in accordance with the changes in market conditions. The product may be priced high when demand conditions are very good and the price may be lowered when the market is sluggish if that helps in increasing sales. This method is sometimes referred to as what the traffic will bear method, i.e., charging the maximum possible price given the market conditions.

Advantages

The major advantages of this method are:

(i) It is a very flexible policy

(ii) Price is based on the market conditions.

(iii) When the product life cycle is expected to be relatively short, 'what the traffic will bear' is an appropriate policy because it will enable the firm to recoup the investment fast.

Disadvantages

(i) It is different to estimate what the traffic will bear.

(ii) Under this method, there is a chance of ignoring the elasticity of demand factor.

(iii) If what the traffic can bear in one market is significantly lower than what it is in another, it could lead to the development of a grey market.

Following Competitors

Many firms follow the dominant competitors, particularly the price leader, in setting the price. The price leader is he firm which initiates the price trends.

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The important alternative ways of following the competitors are:

(i) Setting the price at the same level as that of the competitors.

(ii) Setting the price below that of the competitor.

(iii) Pricing higher than that of the competitor's.

The choice of the alternative has to be based on such factors as the comparative quality of the product, the image and reputation of the firm, the uniqueness or similarity of the product etc.

Advantages

The main advantages of this method are:

(i) It is a very simple method.

(ii) It follows the main market trend.

(iii) It has relevance to the competitive standing of the firm.

Disadvantages

(i) If the competitor's price decisions are unrealistic, the follower will also be going wrong on the price.

(ii) The cost factors of the follower may not be similar to that of the competitor's.

(iii) The pricing objective of the firm could be different from that of the competitor's.

(iv) Sometimes the competitor may initiate price change for wrong reasons.

Negotiated prices

Deciding the price by negotiation between the seller and the buyer is common. This is popular with government and institutional purchases.

Advantages

The major advantage of deciding price by negotiation is its great flexibility and the opportunity to put across and understand the points of both the buyer and seller.

Disadvantage

The major disadvantage is that if the bargaining power of the seller is weak, he may not be able to get a good price.

Customer Determined Price

In a number of cases, the foreign buyer specifies the price at which he is prepared to buy the product. Whether a price quotation given by the buyer will be acceptable to seller or not will depend on factors like his cost structure, conditions of business, objectives etc.

Break – even Price

Break - even price is the price for a given level of output at which there is neither any loss nor profit. In other words, if the total costs of production and selling a particular quantity of the product are divided by that quantity, we get the break-even price. If the exporter sells below this price he makes a loss and if he sells above this price he makes a profit. If he sells more than the break-even volume he makes a profit and if the sale is less than the break-even volume, the result will be loss.

Break – even analysis helps to understand the minimum sales required to avoid any loss and also the profit or loss at various levels of sales.

As stand above, the Break-Even Point (BEP) in the point (i.e., the level) of sales at which there is neither any loss nor any profit. In other words, at the break-even point the total revenue will exactly equal the total cost-hence, the term break-even.

The break-even point may be expressed either as a percentage of capacity utilisation (for example, 60 percent of the installed capacity) or as a number of physical units of the output(for example 25,000 units of the product)or as the volume of sales revenue(for example, Rs. 7.2million).

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The difference between the break-even point and the expected capacity utilisation (which is higher than the BEP) is the margin of safety. For example, if the BEP is at 50 percent of the installed capacity and the expected level of capacity utilisation is 80 percent, the safety margin is 30 percent.

The lower the break-even point, the higher is the chance of the project making profit and lower is the risk of incurring loss. Lower the BEP, the higher the margin of safety.

If the BEP is very high, the risk will also be very high. For example, if the BEP is at 80 percent of the capacity, the project will make loss if for any reason (such as demand constraints; production bottlenecks like shortage of raw materials, power cut, breakdown, lob our problem etc.,) it is not possible to achieve 80 percent capacity utilisation.

Calculation of BEP

The break-even point can be calculated in terms of physical units and in terms of sales turnover.

(i) In terms of Physical Units: The number of units required to be sold to achieve the break-even point can be calculated using the following formula:

$$BEP = \frac{FC}{SP-VC} \text{ or } \frac{FC}{C}$$

Where

FC = Fixed Cost

VC = Variable Cost

SP = Selling Price

C = Contribution per unit(C = SP – VC)

Example, if:

FC = Rs.1, 00, 000

VC = Rs.2 per unit

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SP = Rs.4 per unit, and

Maximum productive capacity = 1, 00, 000 units per year

BEP = 1, 00, 000 = 50, 000 units (i.e., 50% of the capacity)

(ii) In Terms of Sales Volume: BEP in terms of sales volume can be calculated using the following formula:

$$BEP = \frac{FC}{SP - VC}$$

Example, if:

FC = Rs.1, 00, 000

SP= Rs. 4 per unit

VC = Rs. 2 per unit

$$BEP = Rs.4 \times \frac{1,00,000}{4-2} = Rs.2,00,000$$

The BEP can be reached at a lower volume by raising the selling price (the variable cost per unit remaining constant) or by reducing the variable cost (the selling price remaining constant)

5.7 CALCULATION OF BREAK-EVEN PRICE

The break-even prices for a given volume of output can be calculated by dividing the sum total of fixed costs and variable costs by the quantity of output.

Example, if:

FC = Rs.1, 00, 000

VC= Rs.2 per unit

Quantity (Q) = 50, 000 units

$$\text{Break - even price} = \frac{FC + VC}{Q}$$

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PRICING METHODS/ APPROACHES:

1) Cost Based Pricing:
a) Advantages
b) Disadvantage
2. Market Oriented Pricing:
a) Advantages
b) Disadvantage
3. Following Competitors:
a) Advantages
b) Disadvantage
3. Negotiated prices:
a) Advantages
b) Disadvantage
4. Customer Determined Price:
5. Break – even Price
6. Calculation of BEP:
i) In terms of Physical Units
ii) In Terms of Sales Volume

$$= \frac{\text{Rs.1, 00, 000 + 1, 00, 000}}{\text{50, 000}}$$

$$= \frac{\text{2, 00, 000}}{\text{50, 000}}$$

= Rs. 4

Break-even price for Pre-determined profit

If the firm wants to fix the selling price in such a way as to get a certain fixed amount of total profit for a given volume, for estimating the price which will yield this level of profit, what he has to do is to add this profit figure to the fixed cost and then calculate the break-even price.

Example:

Fixed Cost = Rs. 1, 00, 000
Required Profit = Rs.50, 000
VC = Rs. 2 per unit
Order quantity = 50, 000 units

$$\text{Break-even price} = \frac{\text{FC+RP+VC}}{\text{Q}}$$

$$= \frac{\text{Rs.1, 00, 000 + 50, 000 + 1, 00, 000}}{\text{50, 000}}$$

= Rs.5

Break-even Chart

The break-even chart is a chart or graph portraying the likely profits or losses are different levels of output.

In the break-even chart given in Fig.10.4, the line FC represents total fixed cost and TC represents total cost (FC+VC) for different levels of output. The difference between FC and TC represents total variable cost at different output levels. The line TR represents total revenue at various volumes of sales. The break-even output is 'Q' because at this level of output the total costs equal the total revenue.

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It is also very clear from the chart that with the help of the break -even chart the loss or profit at different output levels can be easily measured.

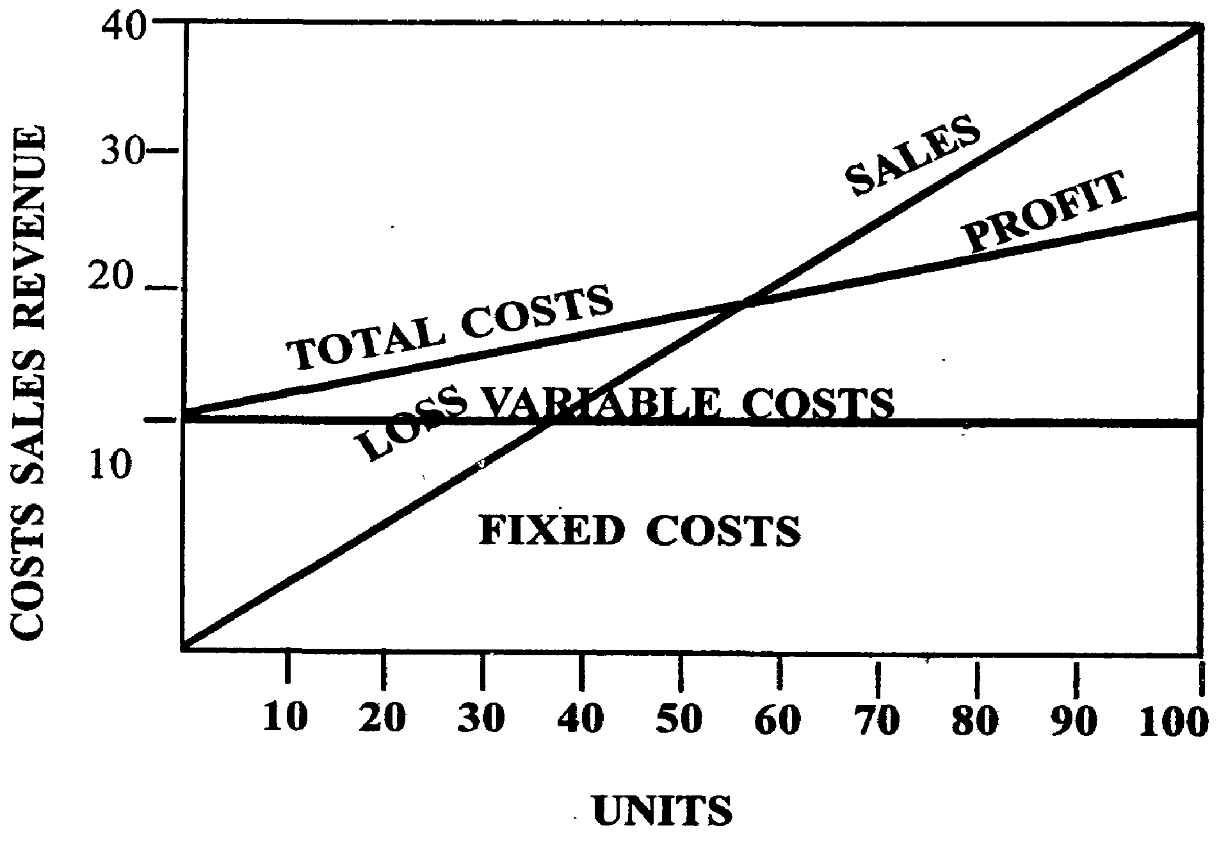

Fig. 5.4 Break-even Chart

MARGINAL COST PRICING:

Marginal cost pricing approach is common in evaluating the profitability of new orders in case of firms with excess (ie. idle) capacity.

Under the marginal cost pricing, the relevant cost considered for pricing is the variable cost, the fixed cost is excluded from the calculation of the cost of the product.

An order which may appear to be unprofitable and, unaccepeptable because of adopting the full cost approach (i.e., both fixed and variable costs) may appear to be profitable if marginal cost approach is adopted.

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EXAMPLE:

Maximum production capacity	=	100,000 units
FC	=	Rs.100, 000
VC	=	Rs.2 per unit
Domestic price	=	Rs.5
Domestic demand	=	50,000 units
Then, break-even price	=	Rs.4
Domestic profit	=	Rs.50,000
Export order	=	30,000 units
Price offered by the importer	=	Rs.3 per unit
Break –even price for export		

Order under conventional method $= \dfrac{\text{Rs.1, 00, 000+160,000}}{80,000}$

= RS.3.25

Loss on export order =(Rs.3-3.25)30,000 = Rs.7,500

Break-even price according

To marginal costing approach $= \dfrac{\text{VC of export order}}{\text{quantity of export order}}$

$= \dfrac{60,000}{30,000} = \text{Rs.2}$

Contribution (profit) = (Rs.3-2) 30,000

of export order = Rs.30,000

The above example shows that if the conventional method of costing is adopted, a wrong feeling that acceptance of the export order will result in a loss and hence the order is likely to be rejected.

On the other hand, if a realistic approach is taken (i.e., the marginal costing)it can be seen that the acceptance of the export order will increase the profits of the firm by Rs.30,000.It may be noted that the fixed cost is recouped by the domestic business.

Even if the domestic business does not fully recoup the fixed cost, marginal costing is still relevant for export pricing as long as idle capacity exists. If the price is higher than the marginal cost, there will be some contribution.

In short, the key to marginal costing is to view home sales export sales as separate compartments and to consider export sales as extra sales. If the exporter recovers his fixed costs from his home sales, he can consider the extra cost (i.e., the marginal cost) of the additional production to be only the variable costs involved. This means the break-even price can be far, lower than if the price were calculated on the basic of both fixed and variable costs.

The difference is indicated in Fig. 5.5, by the space between the dotted and solid lines.

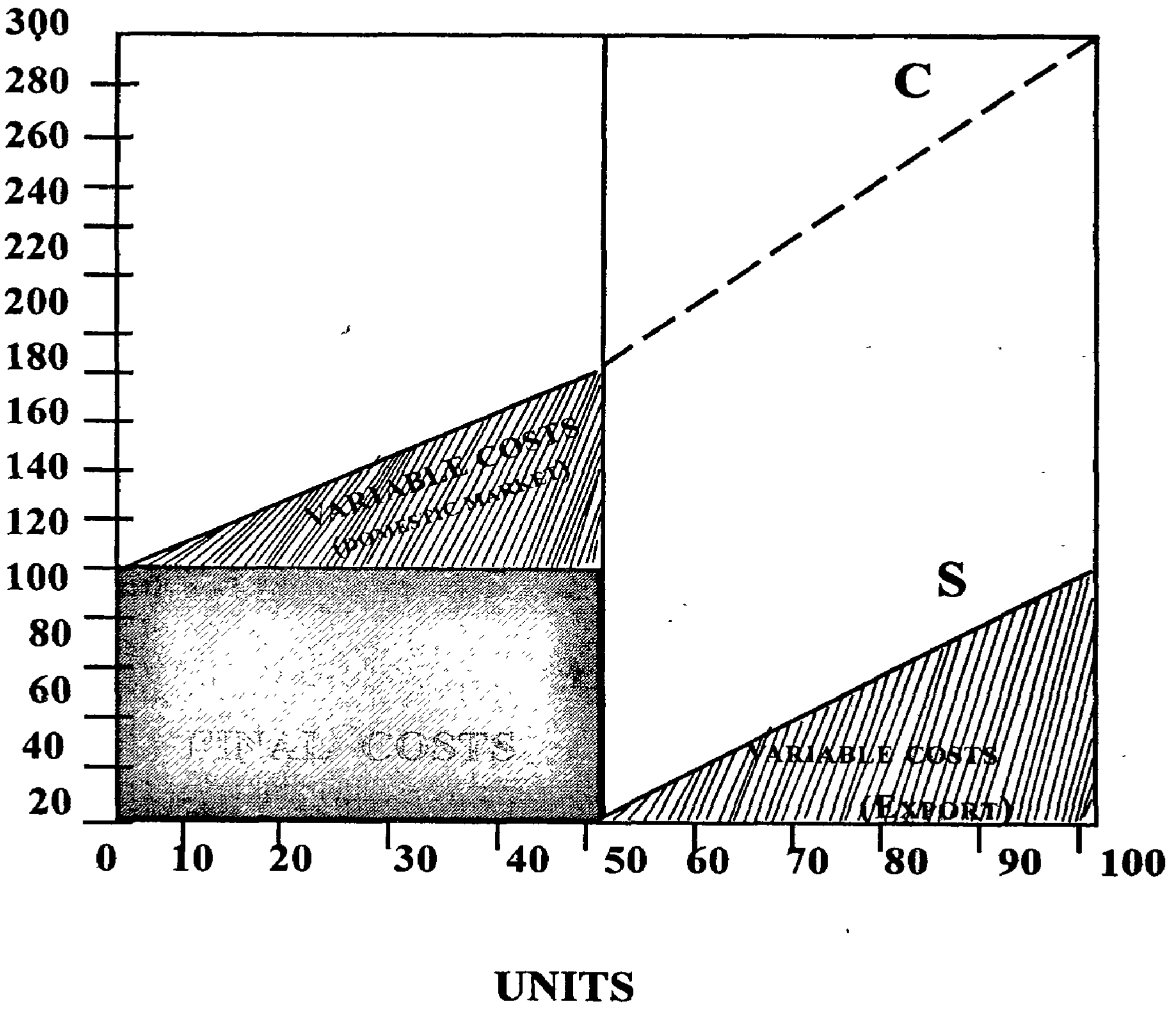

Fig. 5.5 Break-even points according to full costing approach (C) and marginal costing(E)

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Creative pricing

Marginal costing may give scope for creative pricing. Creative pricing means taking advantage of the flexibility between the lower limit of break-even price and the upper limit of the competitors price for similar product.

If the marginal cost is very low when compared to the competitors price, it gives the exporter scope for aggressive pricing policies or for heavy expenditure on initial or continuing promotion or for absorbing the extra cost involved in exporting (provide that the company breaks-even with the domestic business)

Advantages

Following are the main advantages of marginal cost pricing:

When idle capacity exists marginal costing is a realistic approach to evaluating an export order.

When fixed costs are recouped from domestic operation, exporting can increase the total profits if the price is higher than the marginal cost; rejection of the order under basics of full costing would deny this chance of increasing the profits.

Marginal cost pricing will make the firm more price competitive.
Marginal cost pricing may help the firm in market penetration.
Marginal cost pricing may help the firm to increase its total sales turn over.

Disadvantages

The major disadvantages are marginal cost pricing are:

It is normally advisable only when idle capacity with no opportunity cost exists.

It has limitations in applying to export-oriented units, i.e., units whose while or the major part of the output is exported.

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Once the products are sold at a low price, it will be difficult to increase it substantially later.

If the proportion of the variable cost in the total cost is very high, there is not very significant gap between the marginal cost and full cost.

TRANSFER PRICING

Transfer pricing or intracompany pricing refers to the pricing of goods transferred fr0m operations or sales units in one country to the to the company's unit elsewhere.

The appropriate basis for intracompany transfers often depends on the nature of the subsidiaries, the market conditions and government policies and regulations. Some studies show that, in most cases, setting up transfer price remains the absolute prerogative of the parent company executive regardless of the firm's nationality.

The important general objectives of the intracompany pricing system are:

To maximize the total profits of the company;

To facilitate parent-company control; and

To offer management at all levels, both in the product divisions and in the international divisions, an adequate basis for maintaining, developing, and receiving credit for their own profitability.

There are four common pricing arrangements for intracompany transfers of goods.

They are:

Sales at the local manufacturing cost plus a standard mark up.

Sales at the cost of the most efficient producer in the company plus a standard mark up.

Sales at negotiated prices.

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Arm's length sales using the same prices as quoted to independent customers.

Transfer pricing, however has became a controversial issue. From the point of view of the company, the criterion for fixing the price is a complicated issue. The arm's length transfer is perhaps the most acceptable to the tax authorities and most likely to be acceptable to foreign Divisions. However, quite often the predominant consideration in intracompany pricing is maximisation of overall profits of the company. To achieve this, prices have to be adjusted as to mitigate the effects of tax on profits. Hence, it is natural to quote low price for intracompany transfers where taxes are high and enhance the price where the tax rates are low. The following strategies are, therefore, often associated with transfer pricing:

When goods are shipped to high-tariff countries, minimal transfer prices are quoted to reduce the effect of duty.

To reduce income tax, goods are over price when transferred to units in high-tax countries.

When dividend repatriation is curtailed by government policy. Income may be taken out in the form of high prices for products or components shipped to units in that country.

Companies, thus, tend to manipulate transfer prices to circumvent tax and dividend regulations to maximise their profits. As the multinational enterprises are increasing their business, national governments are becoming more concerned about such aspects.

DUMPING

Dumping refers to selling in the foreign market are price below the home market price. According to some economists, however, dumping means selling in the foreign market as a price below the cost of production.

If the foreign price is above the home market price. It is referred to as reverse dumping.

Dumping may for sporadic, intermittent or long period. The explanation of these concepts given below would also make clear the reasons for dumping.

Sporadic dumping is resorted mostly to sell out the excess stock that may arise occasionally. Firms indulging in sporadic dumping may not have any great interest or commitment in the foreign market, their main interest may be to liquidate the excess stock.

Intermittent dumping refers to the periodic sale abroad of goods at prices below the home market price. Intermittent dumping may be resorted to gain a foothold in the foreign market (predatory dumping); to combat a new competition in order to retain a long held position, to eliminate or discipline a competitor, etc.

Long-period dumping may be resorted to facilitate the utilisation of the full capacity of the plant continuously. Operation at full capacity lowers the average cost and increases profits in the home market. The foreign market price must at least recoup the marginal cost of the product and the home market price must be above the average cost.

Dumping is generally condemned. Most nations take measures to combat dumping like imposing anti-dumping import duties.

5.8 STEPS IN PRICING

The setting up of an appropriate export price involves various steps which are outlined below:

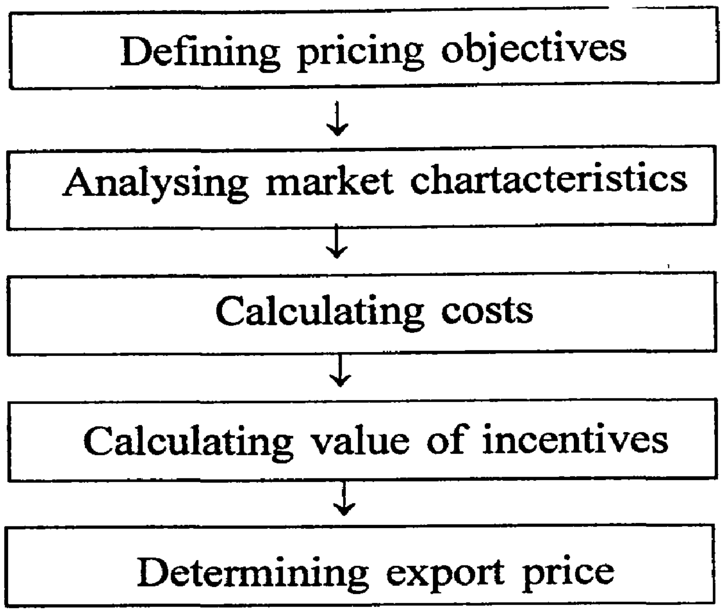

Fig. 5.6. Steps to Export Pricing

Defining Pricing Objectives

As pointed out in an earlier section of this chapter, the export objective has an important bearing or pricing. For example if the objective is to utilize excess capacity, even marginal cost pricing may be acceptable. But if a firm has a good domestic market to sell its full capacity, the export price may be influenced by the short-run vs, long-run objectives.

Further pricing may be used as a means to achieve certain marketing objectives. For example, the price may be set low to achieve market penetration as is often done by the Japanese companies. It has been observed that a key characteristic of the Japanese "entry strategy; is to build market share rather than early profits .The Japanese are patient capitalists who are willing to wait even a decade before realizing their profits "If the company intends to give the product a high profile positioning ,the price would have to be accordingly ,set high.

Pricing for the foreign market is, thus, influenced by a number of marketing pricing objectives.

Analysing Market Characteristics

There are several market characteristics which affect pricing .competitive condition is one such important factor. If competition is very intense, price would

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be very sensitive. On the other hand, if competition is not severe, the company is likely to have more, flexibility in pricing.

Competition can be direct or indirect. A direct competitor sells a product that is similar, while an indirect competitor sells one that is considerably different but that competes for the same buyer's and usage. When the product is 'substitute' the cross elasticity of demand's an important factor to be considered.

Analysis of the characteristics of the different market segments including the customer characteristics is also very important.

Information needs to be collected also about the prevailing price ranges and trade practices and customs like credit and payment terms, discounts, distribution margins etc.,

Calculating costs

To ascertain whether a given price is acceptable or not, it is very much essential to have an accurate estimate of the cost.

The main elements that should be covered in a calculation of export costs are:

Direct production costs: Materials, labour and other expenses that are required to produce the goods.

Production Overheads: materials, labour and the expenses that are indirectly involved in producing the goods.

Marketing and Distribution costs: Materials, labour and other expenses necessary for getting order, handling orders, packing the goods and sending them to customers.

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Estimating the value of the incentives

There may be several export incentives like duty draw-back, Cash Compensatory Support (CCS), Replenishment licence / Exim Scrip, premium on the foreign exchange, income tax benefits etc., which either enable the exporter to reduce the price without incurring any loss or increase the profitability.

Establishing Target Price and Ascertaining Export Feasibility

The next step is to establish a target price based on the analysis of the market characteristics and to ascertain whether it will be possible to export all that price.

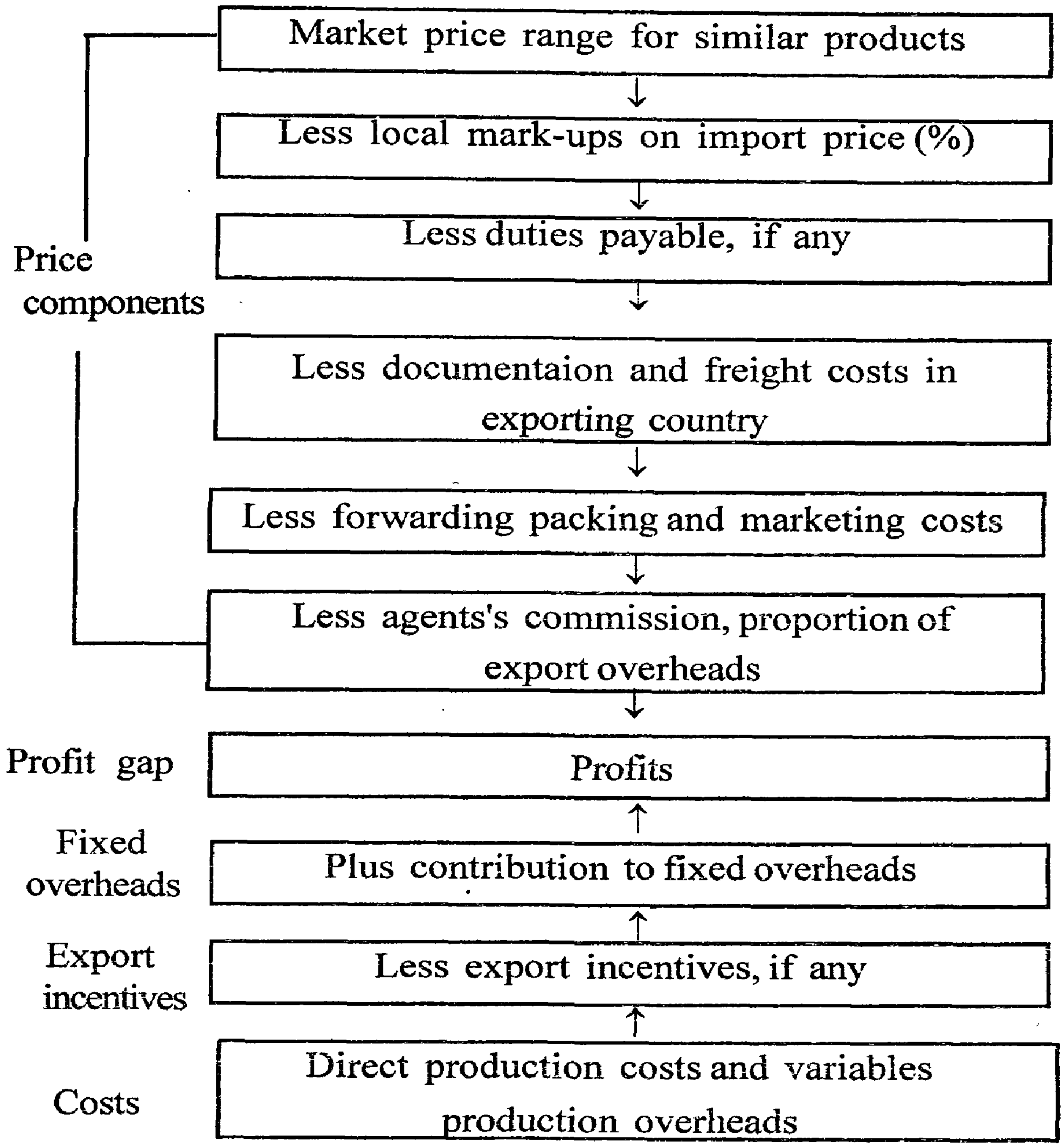
The estimates of the cost, and the value of the incentives and the export pricing objectives enable the company to estimate the minimum amount it must realize, after allowing for the marketing and distribution costs, so as to make the export feasible. To know whether export at the estimated market price is feasible, the company must work backwards from this market price. This is known as retrograde pricing which is summarised below. The gap that remains between the costs and the price presents the exporter with his profit and or contribution to overheads.

EXPORT PRICE STRUCTURE

Working backswards from a given market price to ascertain whether the export will be profitable or not is known as retrograde pricing when an export order is received with the buyer specifying the price or when exporter has to accept the prevailing market price, method this process will help to find out the profitability.

The important steps in retrograde pricing are shown in Fig.5.7

RETROGRADE PRICING



1 . Elements of the export price structure

Once a policy decision on pricing has been made, the next step is to establish individual prices. This must be done before fixed quotation are prepared for the importer. The most important tool at this stage of pricing is the price structure, which gives a detailed picture of all cost elements from factory gate to the consumer price.

The price structure enables the producer / exporter to:

(i) Build up his final price stage by stage;

(ii) Compare his pricing at all stages with that of his competitors;

NOTES

(iii) Analyse his prices to find out whether cost savings can be achieved in one or more elements.

A typical export price structure is the following

(a) Factory cost of product

(b) Producer's Profit

a+ b = price, ex-factory gate

(c) Export packing and marking

(d) Loading at factory

(e) Transport to docks, railhead or airport

(f) Port/rail/airport handling changes and less

(g) Cost of documents [bill of lading, airway bill]

(h) Consular invoice, certificate of origin

(i) Export duty if any

a to i = C & F price

(j) Insurance premium and cost of policy

(k) Sea or air freight charges

(l) Dock /rail/airport handling charges and less.

a to 1 = CIF price

(m) Unloading charges at destination

(n) Import duties and taxes

(o) Clearing agent's fees

a to 0 = Landed price

(p) Transport to importer's warehouse

(q) Importer's margin or mark-up

(r) Wholesaler's margin or mark-up

(s) Retailer's margin or mark-up

a to a = Price to consumer.

NOTES

2. Margins or mark up

(a) Mark- up and mark-down pricing

Important components of an export price are the 'importers', wholesalers' and retailers' margins (or mark-ups) which inflate the price before the product reaches the final consumers. Because of the margins and other ad valorem duties or charges, a small reduction in the FOB or CIF price may result in a much larger reduction in final price to the consumer (not in percentage but in absolute amount).

For example, a dozen boxes of confectionery.

	Index	$	10% reduction in CIF price New prices difference
CIF price	100	29.00	26.10-2.90
Customs duty 20%	+20	+5.80	
Landend price	120	34.80	31.32
Importer's mark up 35%	+42	+12.18	
Price to wholesaler	162	46.98	42.28
Wholesaler's mark up 25%	+40	+11.75	
Price to retailer	202	58.73	52.85
Retailer's mark up 50%	+101	+29.36	
Price to consumer	303	88.09	79.28- 8.81

In retrograde pricing, the reverse calculations are performed:

Price to consumer	100	88.09
Retailer's mark- up 50%	-33	-29.36
Price from wholesaler 67 58.73		
Wholesaler's mark – up 25% -14		-11.75
Price from importer	53	46.98
Importer's mark up 35%	-13	-12.18
Landed price	40	34.80
Customs duty 20%	-6	-5.80
CIF price	33	29.00

NOTES

(b) Examples of actual profit margins

Consumer goods

Confectionery	Mark-up	
Landed duty- paid price	100	
Importer to wholesale	135	(35 percent on 100)
Wholesaler to independent retailer	169	(25 percent on 135)
Wholesaler to chain and department stores	150	(11 per cent on 135)
independent retailer to consumer	253	(50 per cent on 159)
chain and department stores to consumer	250	(67 per cent on 150)

The importer's mark-up of 35 per cent covers the following costs: warehousing broker's commission, delivery to wholesaler, overheads and profit.

Leather goods	Mark-up	
Landed duty-paid price	100	
Importer to wholesale	110	(10 per cent on 100)
Wholesaler to retailer	160	(45 per cent on 110)
Retailer to consumer	250	(56 per cent on 150)

Toys	Mark-up	
Landed duty-paid price	100	
Importer to wholesaler	115	(15 per cent on 100)
Wholesaler to retain	150	(30 per cent on 115)
Retailer to consumer	250	(167 percent on 150)

The importer's 15 percent is made up of 5 per cent for salesmen's commission and 10 per cent to cover costs of warehousing, re-shipping, promotional expenses and profit. When the importer sells direct to the retail trade, he gives himself a mark-up of 50percent on the landed duty-paid price, out of which he has to allow a 10%commision to his salesman, as against the 5 per cent he allows on sales to the wholesaler.

Toiletries and cosmetics	Mark-up	
Landed duty-paid price	100	
Importer by wholesaler	270	(170 percent on 100)
Retailer to consumer	500	(85 percent on 270)

The importer, in marking up his price to the retailer from the landed price, accounts for the following costs: warehousing, breaking bulk, re-shipping in small lots, soliciting and serving accounts, administration, overheads and profit. The very high final mark-up over the landed price-five times that price- is customary in this type of trade; the same margin of five times the factory cost is also usual in the domestic market.

STANDARD CAPITAL GOODS (COMPRESSORS)

	Prior schedule
Importer's delivered price to distribution	50
Distributor to wholesaler	56 (12 percent on 100)
Distribution to dealer	75 (50 percent on 50)
Dealer to user (i.e. list price)	101 (35 percent on 75)

The user pays twice charged by the importer to the distributor.

EXPORT PRICE QUOTATIONS AND INCOTERMS

There are a number of common sales or trade terms used in international trade to express the sale price and the corresponding rights and responsibilities of the seller and the buyer. These are terms defined by the international Chamber of Commerce.

The purpose of incoterms is to provide a set of international rules for the interpretation of the most commonly used trade terms in foreign trade. Thus, the uncertainties of different interpretation of such terms in different countries can be avoided or at least reduces to a considerable degree.

NOTES

Frequently, parties to a contract are unaware of the different trading practices in their respective countries. This can give rise to misunderstanding, disputes and litigation with all the waste of time and money that this entails. In order to remedy these problems the international Chamber of Commerce first published in 1936 a set of international rules for the interpretation of trade terms. These rules were known as "Incoterms 1936 " Amendments and additions were later made in 1953, 1967, 1980 and 1990 in order to bring the rules in line with current international trade practices. The Incoterms 1990 came into force on 1st July, 1990.

When exporter and importer agree on terms of delivery, they are legally binding themselves to four legal aspects of the transaction.

Which costs are paid by the exporter, which by the importer.

Which documents the exporter will obtain at whose expense.

When the title to the goods and the responsibility for them passes from the exporter to the importer.

Where and when the goods are delivered.

The key features of each of the incoterm1990 are given below:

EXW: EX WORKS

"Ex Works" means that the seller fulfills his obligation to deliver when he has made the goods available at his premises (i.e., works, factory, warehouse etc.,) to the buyer. In particular, he is not responsible for loading the goods on the vehicle provided by the buyer or for clearing the goods for export, unless otherwise agreed. The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. This term thus represents the minimum obligation for the seller. This term should not be used when the buyer cannot carry out directly or indirectly the export formalities. In such circumstances, FCA term should be used.

FCA: Free Carrier

''Free Carrier" means that seller fulfills his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carried named by the buyer at the named place or point. If any precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into his charge. When, according to commercial practice, the seller's assistance is required in making the contract with the carrier (such as in rail or air transport) the seller may act at the buyer's risk and expense.

This term may be used for any mode of transport, including multimodal transport,.

"Carrier" means any person who, in a contract of carriage, undertakes to perform or to procure the performance of carriage by rail, road, sea, air, inland waterway or by a combination of such modes. If the buyer instructs the seller to deliver the cargo to a person,, e.g., a freight forwarder who is not a "carrier" the seller is deemed to have fulfilled his obligation to deliver the goods when they are in the custody of that person.

"transport terminal" means a railway terminal, a freight station, a container terminal or yard, a multi-purpose cargo terminal or any similar receiving point.

"Container" includes any equipments used to utilise cargo, e.g., all types of containers and/or flats, whether ISO accepted or not, trailers, swap bodies, ro-ro equipment, igloos, and applies to all modes of transport.

FAS: Free Alongside Ship

"Free Alongside Ship" means that the seller fulfills his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment.

NOTES

The FAS term requires the buyer to clear the goods for export. It should not be used when the buyer cannot carry out directly or indirectly the export formalities.

The term can only be only used for sea or inland waterway transport.

FOB: Free on Board

"Free on Board" means that the seller fulfills his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of less of or damage to the goods from that point.

The FOB requires the seller to clear the goods for export.

The term can only be used for sea or inland, waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the FCA term is more appropriate to use.

CFR: Cost and Freight

"Cost and Freight" means that the seller must pay the costs and freight necessary to bring the goods to the named part of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivery on board the vessel, is transferred the seller to the buyer when the goods pass the ship's rail in the port of shipment.

The CFR term requires the seller to clear the goods for export.

This term can only be used for sea and inland waterway transport. When the ship's rail serves to practical purpose, such as in the case of roll-on/roll-off or container traffic, the CPT term is more appropriate to use.

CIF: Cost, Insurance and Freight

"Cost, Insurance and Freight" means that the seller has the same obligations as under CFR but with the additional that he has to procure marine insurance against the buyer's risk of loss of goods during the carriage. The seller contracts for insurance and pays the insurance premium.

NOTES

The buyer should not that by CIF term the seller is only required to obtain insurance on minimum coverage. The CIF term requires the seller to clear the goods for export.

The term can only be used for sea and inland waterway, transport. When the ship's rail serves on practical purpose such as in the case of roll-on/roll-off container traffic, the CIP term is more appropriate to use.

CPT: Carriage Paid To

"Carriage paid to" means that the seller pays the freight for the carriage of the goods to the named destination. The risk of loss or damage to the goods, as well as any additional costs due to events occurring from the seller to the buyer when the goods have been delivered into the custody of the carrier. "Carrier" means any person who, in a contract of carriage undertakes to perform or to procure the performance of carriage, by rail road, sea, air, inland waterway or by a combination of such modes.

If subsequent carriages are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier.

The CPT terms requires the seller to clear the goods for export.

The term may be used for any mode of transport including multimodal transport.

CIP: Carriage and Insurance Paid To

"Carriage and Insurance paid to" means that the seller has the same obligation as under CPT but with the addition that the seller has to procure cargo insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium.

The buyer should note that under the CIP term the seller is only required to obtain insurance on minimum coverage. The CIP term requires the seller to clear the goods for export. This term may be used for any mode of transport including multimodal transport.

NOTES

DAF: Delivered At Frontier

"Delivered at Frontier" means that the seller fulfills his obligation to deliver when the goods have been made available, cleared for export, at the named point and place at the frontier, but before the customs border of the adjoining country. The term "frontier" may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term. The term is primarily intended to be used when goods are to be carried by rail or road, but it may be used for any mode of transport.

DES: Delivered Ex Ship

"Ex Ship" means that the seller fulfills his obligation to deliver when the goods have been made available to the buyer on board the ship uncleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the named port of destination.

DEQ: Delivered Ex Quay (Duty Paid)

"Delivered Ex Quay (duty paid)" means that the seller fulfills his obligation to deliver when he has made the goods available to the buyer on the quay(wharf) at the named port of destination, cleared for importation. The seller has to bear all risks and costs including duties, taxes and other charges of delivering the goods thereto.

This term should not be used if the seller is unable directly or indirectly to obtain the import licence.

If the parties wish the buyer to clear the goods for importation and pay the duty the word "duty unpaid" should be used instead of "duty paid"

If the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods (such as Value Added tax VAT), this should be made clear by adding words to this effect. "Delivered ex quay. VAT unpaid (.....named port of destination...)

This term can only be used for sea or inland waterway transport.

NOTES

DDU: Delivered Duty Unpaid

"Delivered Duty Unpaid" means that the seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to be costs and risks involved in bringing the goods thereto (excluding duties, taxes and other official charges payable upon importation) as well the costs and risks of carrying out customs formalities. The buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time.

If the parties wish the seller to carry out customs formalities and bear the costs and risks resulting there from, this has to be made clear by adding words to this effect.

If the parties wish to include in the seller's obligations some of the costs payable upon importation of the goods such as Value Added Tax (VAT), this should be made clear by adding words to this effect. "Delivered duty unpaid. VAT paid (...named place of destination...)"

This term can only be used for sea or inland waterway transport.

DDU: Delivered Duty Unpaid

"Delivered Duty Unpaid" means that the seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes and other official charges payable upon importation) as well the costs and risks of carrying out customs formalities. The buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time.

If the parties wish the sellers to carry out customs formalities and bear the costs and risks resulting therefrom, this has to be made clear by adding words to this effect.

NOTES

If the parties wish to include in the seller's obligations some of the costs payable upon importation of the goods such as Value Added Tax (VAT), this should be made clear by adding words to this effect, "Delivered duty unpaid, VAT paid (...named place of destination...)"

This term may be used irrespective of the mode of transport.

DDP: Delivered Duty Paid

"Delivered duty paid" means that the seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the risks and costs including duties, taxes and other charges of delivering the goods thereto, clear for importation. Whilst the EXW term represents the minimum obligation for the seller, DDP, represents the maximum obligation.

This term should not be used if the seller is unable directly or indirectly to obtain the import licence. If the parties with the buyer to clear the goods for importation and to pay the duty, the term DDU should be used.

if the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods (such as Value Added Tax (VAT), this should be made clear by adding words to this effect. "Delivered duty paid, VAT unpaid (....name place of destination)".

This term may be used irrespective of the mode of transport.

Group E Departure	EXW	EX Woks
Group F Main carriage unpaid	FCA FAS FOB	Free Carrier Free Alongside Ships Free on Board

NOTES

Group C Main Carriage Paid	CFR	Cost and Freight
	CIF	Cost Insurance and Freight
		Carriage Paid to
	CIP	Carriage and Insurance Paid to
Group D Arrival	DAF	Delivered at Frontier
	DES	Delivered Ex Ship
	DEQ	Delivered Ex Quay
	DDU	Delivered Duty Unpaid
	DDP	Delivered Duty Paid

Mode of transport and the Appropriate Incoterm 1990

Any mode of transport Including multimodal	EXW	Ex Works(...named place)
	FCA	Free Carrier (...named place)
	CPT	Carriage Paid to (...named place of destination)
	CIP	Carriage and insurance Paid to (...named place of destination)
	DAF	Delivered At Frontier (...named place)
	DDU	Delivered Duty Unpaid (...named place of destination)
	DDP	Delivered Duty Paid (... namced place of distination)

NOTES

Air transport	FCA	Free carrirer (...named place)
Rail transport	FCA	Free carrier (...named place)
Sea and inland waterway	FAS	Free Alongside ship (...named, transport port of shipment)
	FOB	Free on Board (...named part of shipment
	CFR	Cost and Freight (...named port of destination)
	CIF	Cost, Insurance and Freight (...named port of distination...)
	DES	Deleivered Ex.ship (...named port of destinatioin...)
	DEQ	Delivered Ex Quay (...named port of destination...)

INCOTERMS - A WORKED EXAMPLE (RESPONSIBILITIES OF AND COST TO THE EXPORTER

A customer to Frankfurt, Germany, asks for a quotation for 3000 pairs of shoes. You decide on a unit price of $2, giving a total price of $6000 for the goods alone.

What are the aditional costs of getting the goods to the customer? How is your quotation affected by the terms of delivery?

NOTES

If you quote	Price includes	Additional Cost ($)	Price is ($)
EXW	**Ex works** Export packing making crates with shipping marks	300	6,300
FCA	**Free center** Carriage and insurance for delivery to railway station by road transport including insurance	100	6,400
FAS	**Free alongside ship** Rail transport to port (including insurance) and getting goods alongside ship)	310	6,710
FOB	**Free on board** Deck does, loading goods on board ship, preparing shipping documents.	100	6,810
CFR	**Cost and freight** Sea height to Hamburg (nearest port to Frankfurt)	875	7,685
CF	**Cost, Insurance and Freight** sea freight + marine insurance (port to port)	100	7,785

NOTES

DEQ	**Delivered ex quay** Landing charges at Hamburg	90	7,875
DDP	**Delivered duty paid** - Import duty on 3,000 pairs of shoes	1,200	9,225
	- Transport by rail Hamburg Frankfurt	150	1,350

5.9 INFORMATION REQUIERMENTS FOR EXPORT PRICING

Type of Information required

To explore the extent to which a producer/exporter can be competitive in selling its products, information is required on:

Costs

To enable comparative calculators to be made for each country of sale, this would show the extent to which the exporter can be competitive in each of the markets selected.

The costs to consider are made up as follows.

Factory costs

These include prime costs, factory overheads. These include direct materials, direct labour, other direct cost or expenses, indirect materials, indirect labour, factory supplies and other indirect costs or expenses.

Selling and distribution costs and margins.

These cover:

a) The manufacturer's or exporter's cost of selling his products, including salaries for all sales staff, travelling expense, etc. Some selling and distribution costs are direct, such as sales commission and height charges. Most, however,

are indirect,/, such as salesmen's salaries, advertising vehicle costs and salaries of distribution personnel.

NOTES

b) The cost of transporting the product to the market, including freight (sea, rail, air) insurance, port and landing fees, cost of documents, etc. these costs are related directly to the weight and/or value of the products exported and can therefore be considered as variable, or fixed on a unit basis.

c) The cost plus profit charged by the importers and others in the chain of distribution for the performance of their specialized functions (selling, transport, storage, financing, involving etc.,) These costs are normally expressed as percentages on the landed cost or on intermediate selling. The margins or make up added by importers and other distributors are usually firmly established. They vary from one product group to another, but variations within a product group tend to be slight. In effect, margins and make-ups may be considered as variable costs or fixed on a unit basis.

3. Cost of marketing support and development

The includes expenditure for advertising, sale promotion and similar activities. The total marketing support costs will depend on the exporter's advertising policy and may be fixed or variable accordingly.

4. Administrative costs

These include salaries, office expenses, audit and legal fees, stationery printing etc.,

Foreign markets

The size and nature of demand, and the nature and extent of competition.

The sources of information are the Ministry of Trade or the Export Promotion Organizations (in the exporting country), trade associations and chambers of commerce, commercial attaches, international organizations such as ITC, trade directories , technical journals, shipping agents and freight forwarders.

NOTES

Prices

Constant review of prices is necessary, as pricing is by no means a simple affair. Modern marketing practice now generally accepts that products should be priced at what the market will bear. It is no longer who to work on straight forward cost plus basis. Opportunities for profit can be lost if figures arrived at in this way are too low, sales opportunities can be lost if they are too high, relative to market levels as a whole.

Comparative price patterns may seem chaotic if considered by themselves published price has may be misleading when they do not show special discounts, volume rebates, etc.,

A manufacture should use his own sales staff or department, and internal and external market research facilities, to build up a detailed body of knowledge of competitive activity in the home and overseas markets. He should also study competitors' reactions to his own price changes, which may give a due to their pricing policies.

Good sales staff may elicit from customer contacts why orders are lost price? quality? Service? etc.

Check - List of Information Required

In the developmant of pricing information, the firm must.

Examine the market in which it distributes to product.

Examine its own industry and other industires competing with it.

Consider government activities both from the legel view and the market to be serviced.

The above information requirments are shown below.

Information on the Total Market

What are the markets in which the product is sold?

Who are the significast competitors?

What is the size of the market?

What are the growth prospects?

How do different market segments interact?

Information in Competition

What are the competing products?

What do buyers require?

How much room is there for price changes?

What share of the market is held by competitors?

Are market shares changing?

What is the financial position of competitors?

What are the expected reactions to change in the market?

Information on Prices

What are price for competing products?

Is there a price leader?

What is the relationship between price and volume?

What are the expected reactions to changes in the market?

Information on Government Policies

How is the market influenced by government?

How are individual firms influenced by government?

Which firms are important suppliers to government?

Information on Production and Costs

What is the firm's present level of production, inventory?

What are the costs associated with these levels?

What effects would production and inventory level changes have on these costs?

What costs are relevant for the pricing decision?

If methods of cost allocation are not appropriate for pricing, is it possible to obtains different cost information which is relevant?

Information on Revenue and Profits

What are the revenue, profit, cost relationships for the product and the effect on other products?

NOTES

True or False:

1. Right price is one of the important determinds of business success. (True/False)
2. Fixed costs are costs which not remain fixed. Irrespective of the level of production, like investment in land, building and plant and machinery. (True/False)
3. The objective of marketing is a very important factor determining the price. (True/False)
4. Creative pricing means taking advantage of the flexibility between the lower limit of break even price. (True/False)
5. Multinational enterprises are increasing their business, national governments are becoming more concerned about such aspects.(True/False)

Answer:

1. True 2. False
3. True 4. True
5. True

What is the effect of volume on revenue and profit?

What are the firm's profit margins? Are they different from competitor's margins?

The Ist should be examined and gaps in information available filled in Sources of information are not always accessible and specialist marketing research services may be needed. Information must be reliable. The degree of uncertainly should be minimized as much as possible.

5.10 KEY TERMS

* Skimming
* Dumping
* Factory Costs
* Export Feasibility

5.11 SUMMARY

Export pricing, exporter's costs, pricing objectives, factors affecting pricing, pricing methods, calculating of BEP, steps in pricing and information requirements for export pricing are dealt with in details in this chapter.

5.12 MODEL QUESTIONS

Section - A

1. Explain various types of cost in export marketing.
2. Explain exporter's costs.
3. Describe pricing objectives.
4. What are the steps in pricing?
5. Explain pricing methods/approaches.

Section - B

1. Explain Government factor.
2. What are the points on advantages and disadvantages in Market Oriented Pricing.
3. Explain the calculation of Break-even price.
4. What are the important steps in retrograde pricing?

LESSON - 6

INTERNATIONAL PROMOTION

NOTES

STRUCTURE

6.0 Introduction

6.1 Unit Objectives

6.2 Marketing environment and promotion strategies

6.3 Major decisions in international marketing communication

6.4 Communication mix

6.5 Role of export promotion organisation

6.6 Trade Fairs and Exhibitions

6.7 Key Terms

6.8 Summary

6.9 Model Questions

6.0 INTRODUCTION

Marketing Communication, or promotion, plays a very important role in marketing, both domestic and international. Even if a product is very good, it may not achieve full sucess unless the promotion is appropriate and adequate.

Simon Majaro aptly describles: "The word communication in marketing simply means the transmission of a message, to the buyer or the consumer or the channel of distribution, in which the supplying company aims to tell each one of these receiver why they should buy or handle the product. In other words, in its least sophisticated form communication aims to make potential buyers (or middlemen) more favourably disposed towards the firm's offerings. It seeks to achieve these objectives by informimg the recipient of the message of the existence of the product and its unique details or by modifying his attitude towards such a product or by enhancing his preference for one product against another"[1]

NOTES

Communication performs one or more or all of the following function:

(i) Making the potential consumers aware of the product.

(ii) Persuading the consumers to buy the product.

(iii) Motivating the consumers to buy the product by special incentives.

(iv) Reassuring the consumers and helping to overcome the post-purch are dissonance.

(v) Informing the channels about the product.

(vi) Motivating the channels to handle the product.

(vii) Promoting the image of the product.

(viii) Promoting the image of the company.

(ix) Promoting the image of the country.

Promotion, being one of the four Ps of the marketing mix, to be sucessful, should be consistent with the other three ingredients of the mix.

6.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* Marketing evnironment and promotion strategies
* Role of export promotion organisation
* International marketing communication and communication mix

6.2 MARKETING ENVIRONMENT AND PROMOTION STRATEGIES

Because of the differences in the marketing environment, promotion is often a very complex problem in international, particularly in multinational, marketing. As in the case of product, the SRC can results in the failure of the promotion.

Even when the same product is marketed on other countries without any modification, sometimes it is necessary to modify the promotiomal theme.

NOTES

The governmental regulations can, however, be ascertained. What is often more diffcult to understand is the socio-cultural environment. To drive home the message that making cake with its cake mix is a very easy task, a foreign company advertised in Japan that making cake with mix was as easy as cooking rice. The Japanese house-wives, who entertained a feeling that cooking rice was a skilled task, however, got agitated by this. This shows how the cultural factors make promotion too delicate a task.

Promotion is an area where many marketers do blunders. Foreign countries have their own customs, traditions and practices regarding trade promotion, gift-giving etc. ignoring them could be disastrous. A foreign affiliated company, a joint venture formed with a Japanese partner, received clear instructions from the head office to advertise heavily at the initial stage. The Japanese partner accepted this proposal but at the same time proposes that allocations be made for promotional rebates to wholesalers and retailers. The foreign partner, however, did not accept this. In spite of heavy advertising, in TV and other media, there was not enough of the product out on the retailers shelves because neither the wholesalers nor the retailers had been given any incentive to push the company's products. Not surprisingly, the company was burdened with a colossal loss. Similarly, the Procter and Gamble also blundered in the Japanese market. In the beginning P and G tried to work with virtually every wholesaler and used its tried and true U.S. style price off promotions. As a result, the company failed to establish close relationship with wholesalers and sparked devastating price wars among wholesalers. The company found itself with poor distribution and little in-store display support. P and G, however, became successful later after it has revamped its marketing strategy. The company then worked closely with 100 wholesalers, down from the original scoe of 400 and no longer offers discount promotions.

It may be noted that the Japanese rebate, entertainment and gift giving up practices differ significantly from Western practices and it is particularly important that these be recognised and understood. Some of the rebate or

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kick-back practices unique to Japan, such as those for purchasing agents, have evolved from the traditional custom of giving special monetary gifts on occasions of celebration or mourning in order to strengthen ties of fellowship.

In the United States, many retailers ask for 'slotting allowances' which are really payments by manufacturers to get their lines into the cabinet. There are also promotional allowances and penalties for lack of movement in the cabinet for new product.

Thus, each market may have its own characteristics relevant to promotion, be it dealer promotion or product promotion in general. What works well for one market may not suit another market. In the mid 1970s when the Poloroid introduced its path breaking SX.70 camera in Europe, the company employed the same advertising strategy - including T.V. commercials and print ads - it had used in the triumphant launch of the product in the U.S. Although the product was really universal, the T.V. commercials featuring testimonials from personalities well-known in the U.S. did not produce results in Europe. Having learnt a lesson from this experience, when, decade later, Poloroid launched a (programme of Pan European advertising to reposition the product, the company looked for inspiration in the various advertising practices of European subsidiaries. Although the product was universal communication adaptation was the appropriate strategy and not straight extension.

Besides the socio-cultural factors, standardisation of the promotional strategy are made difficult or impossible by government regulations or non-availability/under development of certain promotional media. For example, although in many countries T.V. is a very important medium, particularly for promotion of consumer goods, in several developing countries telecast coverage is limited and this is either a government monopoly or under strict government control and ad space available is limited.

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Similarly, while direct marketing has become very important in some countries, it is very insignificant in many countries. Now coming second only to T.V. in a market share of the U.S. advertising, direct sales brings in more sales per annum than all U.S. department stores combined. Once reserved for consumer products, it is now also extensively used in business sales, promoting everything from computers and copiers to heavy industrial, farm and construction equipment. Integrated direct marketing (IDM) which combines various media-TV, radio, print ads, direct mail, telemarketing etc. is also growing in importance in countries like the United States.

It may be possible to overcome some of the barriers by employing suitable strategies. A U.S. company, Cascade Corporation, thus got around the distribution barrier in Japan by using a pull-through strategy that focused on visits directly to end users. The company had to sell its lift truck attachments primarily through a network of several hundred Japanese dealers. As most of them were promoted by the competitive Japanese manufacturers, the dealers promoted the competitor's products at the expense of Cascade. To overcome this problem, the company started talking directly to the end users, though its eight sales people and two service representatives. This strategy along with the improvements in deliveries, after sales service and pricing enabled the company to double its market share in three years from 15 per cent to 30 per cent[3].

When the electronic giant Matsushita Electric Industrial Company, manufacturuers of electronic goods under the brand names of National and Panasonic, planned to introduce rice cooker in India, as National Nippo, it was felt that there would not be many consumers who would be willing to pay Rs.1450 for a gadget which was just a rice cooker. Therefore, a promotional strategy that would increase its utility to make it worth the price containing recipes of a host of dishes ranging from pulaos, biryanis, soups, stews, fried or roasted chickens and desserts that could be cooked the rice cooker was given free it. Thus, an ordinary rice cooker has been converted into a versatile appliance without any modification to the product. It may also be recalled here that the western concept of mixer got modified in India by using a heavy motor to grind rice, dal etc.

In short, in many cases, the promotion strategy will have to be tailor-made to suit the particular marketing environments.

6.3 MAJOR DECISIONS IN INTERNATIONAL MARKETING COMMUNICATION

The important steps in developing an effective communication are the following.

Identifying the Target Audience

Even for the same product the target audience may be different in different countries. For example, certain consumer durables which are used even by the low income groups in the advanced countries may be used only by high income groups in the developing countries. In several cases the need satisfaction by the product varies between markets. For example, bicycles are basic means of transportation in countries like India and the important category of consumers are small farmers, blue-collar workers and students. In some of the advanced countries, bicycles are used for sporting and exercising and hence the target audience is different. Again the decision-making roles of different categories of people are not the same in the markets. All these indicate that the target audience may not be the same in all the markets.

Determining Communication Objectives

The communication objectives also may be different in some cases. For example, when the product is in the introduction stage in a market the emphasis of communication could be on consumer education and creation of primary demand. In a market where the product is at other stages of the life cycle, the communication objectives would be different. If there is a serious new competition in one market, fighting competition could be a major objective of advertising in that market at that time.

Determining Message

Kotler points out that "formulating the message will require solving four problems: what to say (message content), how to say it logically (message

structure), how to say it symbolically (message format), and who should say it (message source).

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Quite obviously, the decisions regarding the message content, message structure, message format and message source are influenced by certain environmental factors like cultural factors and legal factors. The differences in the environmental factors among the countries may, therefore, call for different messages so as to be appropriate for each market.

Budget Decisions

The size of the total promotional expenditure and the apportioning of this amount to the different elements of the promotion mix are very important but difficult decisions.

The common methods used to set promotion budgets are the following:

Affordable Method: Set the budget at what the company thinks it can afford.

Percentages of Sales Method: A certain percentage of the sales is set apart for promotion.

Objective and Task Method: Involves determining the communication objectives and the tasks involved in achieving the objectives and estimating the expenditure requirements for performing these tasks.

Competitive parity Method: The budget is set at that level which matches the promotional expenditure of the competitors.

Communication Mix Decision:

Difference in the marketing environment may necessitate variations in the communication mix because a channel or medium that is very effective is one market may not be so effective in another market. Some channels which

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MAJOR DECISIONS IN INTERNATIONAL MARKETING COMMUNICATION:

1. Identifying the Target Audience,
2. Determining Communication Objectives,
3. Determining Message,
4. Budget Decisions:
i) Affordable Method,
ii) Percentages of Sales Method,
iii) Objective and Task Method,
iv) Competitive parity Method,
5. Communication Mix Decision

are effective in certain markets may not be available or underdeveloped in some other markets. More about the communications mix is given in the next section.

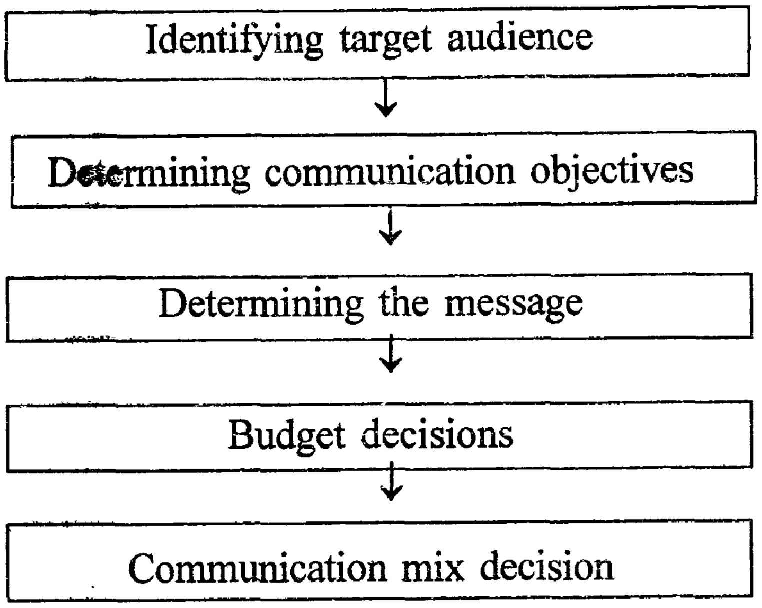

Fig 6.1 Steps in Developing Marketing Communicatiion

6.4 COMMUNICATION MIX

The communication mix, also called promotion mix, has four major elements (or tools or channels), viz., advertising, sales promotion, personal selling and public relations. Which communication tool or tools should be used or the nature of the mix is determined by the marketing environment and the company's objectives and resources.

Advertising

Advertising is defined as any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

Advertising regulations differ between countries.

The relative effectiveness of different media may be different in different countries. Similarly, media availability and efficiency may also vary.

Mass Media Advertising and Direct Advertising

Given the resources constraints and the small volume of business of Indian exporter, in many cases direct advertising is preferable to mass media advertising.

Mass media are media which reach large number of the general public like T.V., newspapers, magazines etc.

Direct advertising is marketing communication addressed directly to the specific customers targeted.

Indian exporters would have difficulties to complete with the large mega-budget mass media advertisers in the foreign markets.

Important types of direct advertising are sales literature and samples and gifts.

Sales Promotion

Sales promotion is defined as short-terms incentives to encourage purchase or sale of a product or service.

Sales promotion includes many things like trade fairs and exhibitions, samples, gifts, contests, games, lotteries etc.

Regulation regarding sales promotion differ between countries.

Trade fairs and exhibitions are effective promotion methods for small exporters. Details are given in a separate section in this chapter.

Personal Selling

Personal selling is defined as oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales.

Personal selling may be preferable when the product is technical in nature, is of goods also. Details about personal selling is given later in this chapter.

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COMMUNICATION MIX:
1. Advertising,
2. Mass Media Advertising and Direct Advertising,
3. Sales Promotion,
4. Personal Selling,
5. Public Relations,

Public Relations

Public relations include a variety of programmes designed to improve, maintain, or project a company or product image.

An important form of public relations is getting positive news and reports about the product or company released through media. This is of particular significance to new products.

The export promotion organisations in India have a great role to play in promoting India's exports through public relations.

6.5 ROLE OF EXPORT PROMOTION ORGANISATIONS

Export promotion organisations like Export Promotion Councils (EPCs), Export Development Authorities, Commodity Boards, India Trade Promotion Organisation (ITPO), Exim Bank etc., can play a very important role in promoting Indian products abroad.

These organisations undertake export marketing communication by:

(i) Advertising

(ii) Sales Promotion

(iii) Public Relations

Export marketing communication by these organisations is not for the benefit of any particular firm. These organisation aim at promoting the Indian products.

These Organisations can be instrumental in:

(i) Creating awareness about India's export potentials.

(ii) Impressing foreign about India's industrial advances and technical capability.

(iii) Improving the quality image of India.

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The role of these organisations assume greater importance in the light of the small size and resources of the Indian exporters.

A part from the publicity for t he Indian products by advertising and public relations, they play a very important role in sales promotion. The Export Promotion Councils, Trade Development Authorities and Commodity Boards sponsor trade fairs. For example, the Marine Products Export Development Authority organises, in collaboration with the Sea Marine Products Export Development Authority organises, in collaboration with the sea-food Exporters' Association, an Indian Seafood Fair in India every alternate year which attracts potential buyers from different countries. The Spice Fair and Spice Congress organised by the Species Board have considerably helped in promoting Indian Spices. Similarly, other organisation sponsor international fairs of the respective products.

These organisations also help in the participation of Indian exporters in the fairs held abroad.

The export promotion organisation could be of help to the exporters in formulating communication strategies.

They can also play an important role in sponsoring buyer-seller meets.

The Strategic *Market entry support* scheme of the Export-Import Bank of India helps Indian firms in identifying products with export potential and right market segments and in formulating suitable promotion strategy.

The *Darjeeling* logo promoted by the Tea Board and the features on the Darjeeling tea telecasted in some foreign countries helped to boost the image and sale of the Darjeeling tea and to check the sale of bogus products.

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The functions of ITO are described in the chapter on 'export promotion'.

In short, export promotion organisations can play an important role in promoting abroad the Indian products.

6.6 TRADE FAIRS AND EXHIBITIONS

Trade fairs and exhibitions, by bringing potential buyers and suppliers in contact and imparting information about the relevant development around the world; play an important role in international marketing. In certain cases they have a special significance. For example, in Libiya, where media advertisement for products is not permitted, the annual Tripoli International Trade Fair is very important means to promote business. Friendly countries are also permitted to hold single country/single product exhibition and trade fair.

A trade fair, as its name implies, is target directed. It is stage for the purpose of selling goods or demonstrating new ideas and techniques. An exhibition, on the other hand, is not specifically for trade but for the public.

There are two type fairs, viz.,

(i) General fairs, also known as horizontal fairs; and

(ii) Specialised fairs, also known as vertical fairs and solo fairs.

At a general fair, the goods displayed covery many different fields. A specialised for concentrates on products of a particular industry or group of industries. Within that industry or group, a large number of products may be on display.

The general fairs attract visitors of all ages, tastes and types and, therefore, is a good place to show consumer goods or new products that needs to be seen and accepted. National pavilions are often built for general fairs and in them the government organises an exhibition that gives the visitors a good idea of country's industry, agriculture way of life and tourist

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attraction as well as products it wishes to sell a broad. In other words, the purpose is largely to build up an image of the country in the public mind.

If the product that an exporter, actual or potential. Wishes to display is one that interests a specific group of buyers and especially if it is technical in nature, the specialised fair is probably the better choice. Many prefer the specialised fair because it is not open to general public (or open only at specific times) and people who come have both an interest and some knowledge of the product.

Management by the customers, order processing and in the total logistics system have made inventory management both challenging and efficient.

Order Processing: The efficiency of order processing by the client as well as the company have important implications for inventory levels and other aspects of the logistics. Rapid order processing shorten the order cycle and allows for lower safely stocks on the part of the client. Exporters from developing countries like India face the challenge of coping up with such situations.

Material Handling and Warehousing: Materials handling and warehousing are also an important of the logistics management. The technologies in use in materials handling and transportation may be different in different countries. Differences in natural factors like climatic and weather conditions may also make warehousing requirements varied.

6.7 KEY TERMS

* Target Audience
* Budget decision
* Public relations

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True or False:

1. Marketing communication as promotion, plays a very important role in marketing both domestic and international. (True/False)
2. When the same product is marketed in other countries without any modification. (True/False)
3. Promotion is an area where many marketers do not blunders. (True/False)
4. Advertising is defined as any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponser. (True/False)
5. A specialised fair concentrates on products of a particular industry or group of industries. (True/False)

Answer:

1. True 2. True
3. False 4. True
5. True

6.8 SUMMARY

International promotion, promotion strategies, marketing communication, communication mix, role of promotion organisation, trade fairs and exhibitions are dealt with details in this chapter.

6.9 MODEL QUESTIONS

Section - A

1. Explain Environment and Promotion Strategies.
2. What are major decisions in international marketing communication?
3. Explain role of export promotion organisations.

Section - B

1. What are the functions of Communication performs?
2. Write short notes on communication mix.
3. Explain trade fairs and exhibitions.

LESSON - 7

INTERNATIONAL DISTRIBUTION

STRUCTURE

7.0 Introduction

7.1 Unit Objectives

7.2 International Channel System

7.3 Marketing Environment and Internal Distribution

7.4 Internation Logistics

7.5 Market Entry Strategies

7.6 Conclusion

7.7 Key Terms

7.8 Summary

7.9 Model Questions

7.0 INTRODUCTION

Place, i.e., placing the product, is one the four 'P' s of marketing and it refers to the distribution of the product covering channels of distribution and physical distribution. Effectiveness of marketing depends, among other things, on making the product available at the right places and at the right time at the minimum possible distribution cost. It is well acknowledged that one of the most difficult areas in international marketing is distribution. In many markets a very hard barrier to market penetration is the problem of distribution. The economic liberalization in India has removed, to a large extent, the political barrier to entry, but many multinationals find it very difficult to penetrate the market. That is why many MNCs go in for joint ventures. It was mainly to get an access to the distribution system that the P & G forged an alliance with the Godrej Soaps.

A distribution channel may be defined as "the path traced in the direct or indirect transfer of title to a product as it moves from a producer to ultimate consumers of industrial users". A distribution channel, in other words, is "the set of firms and individuals that take title, or assist in transferring title, to the particular good or service as it moves from the producer to the consumers".

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The above definition makes it clear that channels of distribution may consist of two categories of intermediaries or middlemen, viz.,

(i) Merchants who take title to the goods.

(ii) Agents who do not take title to the goods but who assist in the transforming of the title.

"Each member of a channel is a link in a distribution network of organisation that extends from the producer to the end-users of products or services. Although some firms perform all channel functions, typically several organisations are linked together in a distribution channel to carry out the various activities of storage, transportation, sales contract, service, sorting and repacking".

7.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* The International Channel System
* Marketing Environment and Internal Distribution
* International Logistics and Strategies

7.2 INTERNATIONAL CHANNEL SYSTEM

Where international marketing involves exporting, two categories of marketing channels are involved, viz., channels between the nations and channels within the foreign market.

The International distribution system consists of two subsystems, namely, the domestic system and the foreign system. The nature of the channel system is affected by, among other things, by the method of exporting.

There are broadly two ways of exporting, namely, direct exporting and indirect exporting.

The indirect export involves home based independent middlemen who constitute the domestic subsystem. No such independent middle man is

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involved in direct export. When the export is direct, the producer makes direct sale to any one or more of the foreign customers. The important kinds of foreign customers (here the word customer is used to refer to the firm/ person who buys the product from the exporter) are importers, distributors, government departments, state buying organisations, industrial buyers, wholesalers, retailers, joint ventures/licences and consumers. If any of these customers is not a final consumer, he is a marketing middle man or channel member between the producer and the final consumer, F.g.7.1 depicts an international marketing channel system.

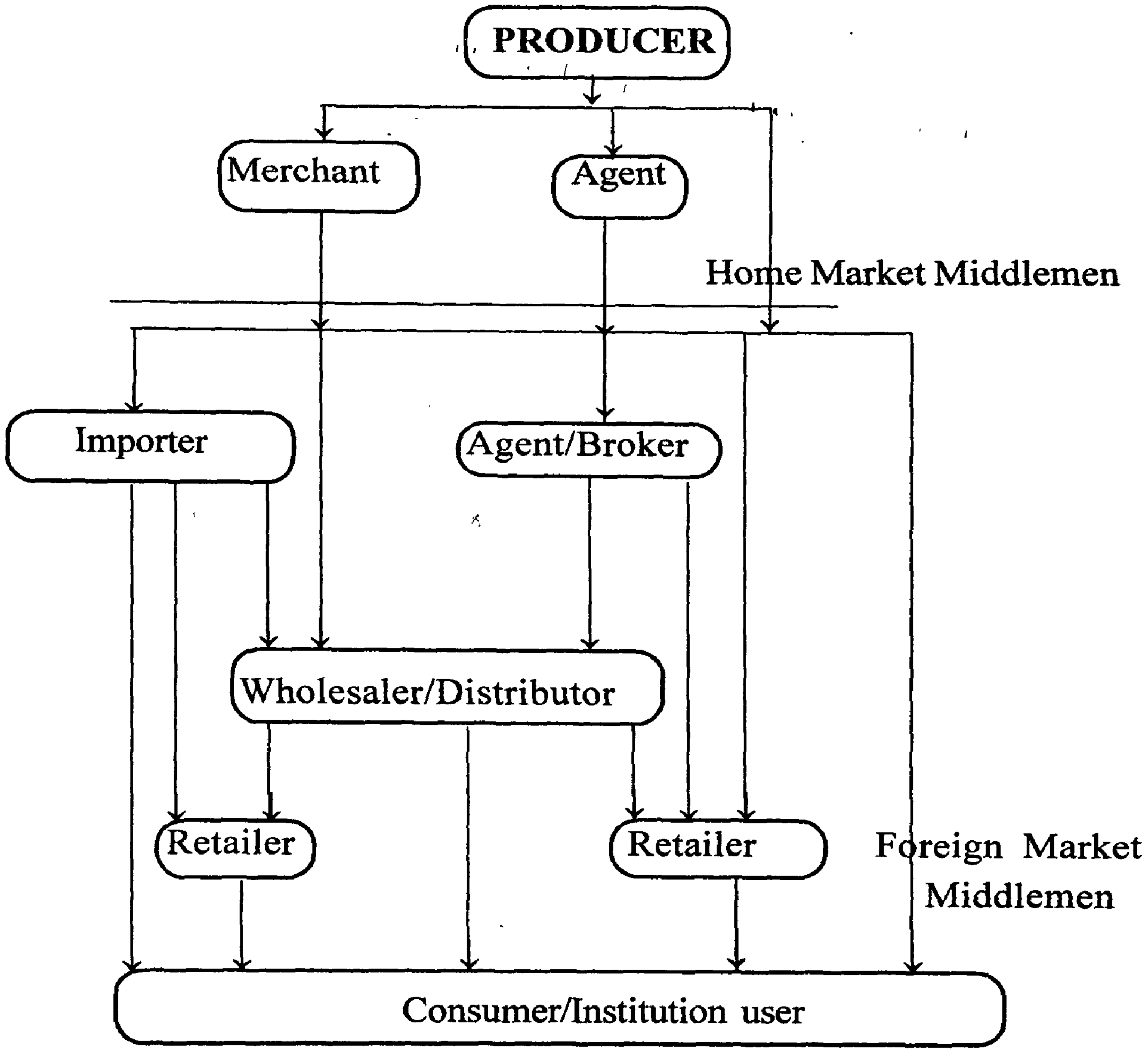

Fig: 7.1 International Marketing Channel System

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Indirect Exporting

The distrinction between direct exporting and indirect exporting is on the basis of how the exporter carries out the transactions flew between himself and the foreign importer or buyer. In indirect export, the manufacturer utilises the services of various types of independent international marketing middlemen or co-operative organisations. In other words, when a manufacturer exports directly, he transfers the responsibility for the selling job to some other organisation. On the otherhand, in direct export, the responsibility for performing international selling activities rests on the producer. These activities are carried outby so-called dependent organisations that are administratively a part of the manufacturer's company organisation.

The indirect method is more popular with firms which are just beginning their *exporting activities and with those whoe export business is not* considerable indirect exporting has this advantage that the firm does not have to build up an overseas marketing infrastructure. The risk involved is also less. This method is, therefore, advantageous for firms with small means and for those whose limited export business does not justify large investments in developing their own international marketing infrastructure.

The main disadvantage of the indirect method of exporting is the the development of the overseas market depends to a very large extent on middlemen and not on the firm producing the export goods.

Broadly, two alternative channels are available for indirect exporting, viz.,

(i) International marketing middlemen, and

(ii) Co-operative organisations.

1. Marketing Middlemen

There are two important middlemen-merchants and agents. The basic distinction between the merchant and the agent is that the merchant takes title to the product he sells, while the agent does not.

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Export Merchants

The domestic based export merchant buys the manufacturer's product and sells it abroad on his own. When this type of middlemen is used in an international marketing channel, the marketing job of the manufacturer is reduced to essentially domestic marketing and except for certain modifications in the product mix which are sometimes required to suit the international market, all aspects of the international marketing task are handled by this merchant.

Export Trading Houses

In India, there are a number of merchant exporters including export houses and different categories of trading houses who export product procured from many manufactures. Some companies have established their own export marketing subsidiaries (for example, HMT International Ltd.)

Trading Companies: A very important intermediary in international trade is Trading Company. Unlike an export house which concentrates on exports, a trading company is active both in exports and imports. In Japan, the general trading companies are known as sogo shosba and include such well-known MNCs as Mitsubishi, Mitsul and Itochu. The nine largest trading firms handle roughly half of Japan's imports and exports. Even large Japanese domestic companies buy through trading companies.

Export Drop Shipper: In some countries, there is a special kind of export merchant known by such names as export drop shipper, desk jobber or cable merchant. "Open receipt of an order from overseas, the export drop shipper in turn places an order with a manufacture, directing the manufacturer to deliver the product directly to the foreign buyer. The manufacturer collects payment from the drop shipper who in turn is paid by the foreign buyer. Export drop shippers are common in the international marketing of bulky products of low unit value like coal and construction materials.

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Agents Brokers

The second type of marketing middleman in direct exporting is the domestic based agent. Unlike the merchant middleman, the agent does not take the title to the goods; he simply seeks overseas buyers for a commission. In the case, the manufacture assumes all the financial risks.

There are different types of agent middlemen in the international marketing field. These are export commission houses or export buying agents who are representatives of foreign buyers residing in the exporter's home country. Then there are brokers, whoose chief function is to bring the buyers and sellers together, for which they are paid a commission, either by the buyer or seller. Finally, there are manufacturer's export agents, who represent several exporters whose interests are non-competing, and who offer selling and other services.

In some countries there are export management companies (EMCs) who manage, under contract, the entire export activities of a manufacturer. An EMC is sometimes known as a combination export manager (CEM) because it may function as an export department for several allied but non-competing manufacturers. "When compared with export agents, the EMC has greater freedom and considerable authority. The EMC rpovides extensives services, ranging from promotion to shipping arrangement and documentation. The EMC provides extensive services ranging from promotion to shipping arrangement and documentation. Moreover, the EMC handles all, not just a portion, of its principal's products. In short the EMC is responsible for all of the manufacturer's international activities. EMC may be compensated in the form of a commission, salary or retainer plus commission.

2. Co-operative Organisations

The co-operative exporting organisations, which represents a cross between indirect and direct export, carries on exporting activities on behalf of several producers, and is partly under the administrative control of the manufacturers.

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There are two district types of co-operative international marketing organisations:

(i) Piggyback marketing, and
(ii) Exporting combinations.

Under Piggyback marketing, also known as mother-henning or allied company arrangement, one manufacturer uses his overseas distribution facilities to sell the products of one or more other company/companies as well as his own.

As exporting combination is more or less a formal association of independent and competitive business firms which are organised for the purpose of export marketing for the mutual benefit.

Direct Export

As the name indicates direct export refers to the sale in the foreign market directly by the manufacturer. The manufacturer may make the sale directly to the foreign customers or to a middleman or middlemen located in the overseas market. In both cases, the export is direct-manufacturer does not use any independent middlemen in the channel between the home country and the overseas market.

Firms with considerable export business usually resort to direct exporting. Of course, the investment and risk involved in direct exporting are great; but so are the potential returns.

A number of organisational arrangements are available to a company for carrying on direct exporting.

(a) The exports business may be conducted by a domestic based export department, or division. There are four important types of domestic based export organisations.

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(i) Build in export department; (ii) Separate export department, (iii) Export sales subsidiary; and (iv) Export combination, or co-operative export company.

(b) The company may establish overseas sales branches or subsidiaries in addition to, or instead of, a domestic marketing department. An overseas sales branch enables a company to carry out the marketing activities in the foreign market more effectively. As a part of overseas sales branch, the company may also establish storage or warehousing facilities and place marketing on a strong footing.

(c) A company may employ travelling salesmen for the overseas market. These travelling salesmen may be home-based or may be attached to the foreign branches or subsidaries.

(d) Direct exporting may also be carried out by establishing contacts with foreign based distributors or agents. The distributors would buy the goods from the manufacturer and sell them in the overseas market, whereas the agents would sell on the manufacturer's behalf on commission basis.

The Direct exporting channels are shown in Fig.7.2

As mentioned earlier, if the buyer from the producer is not the final consumer, in several cases there will be other member (s) between the final consumer and the exporter.

Channel (s) for the distribution of a product may be different in different countries. A channel which is effective in one country may not be effective or available in another country. For example, direct marketing has become very popular in the U.S. but it is not significant in many other countries.

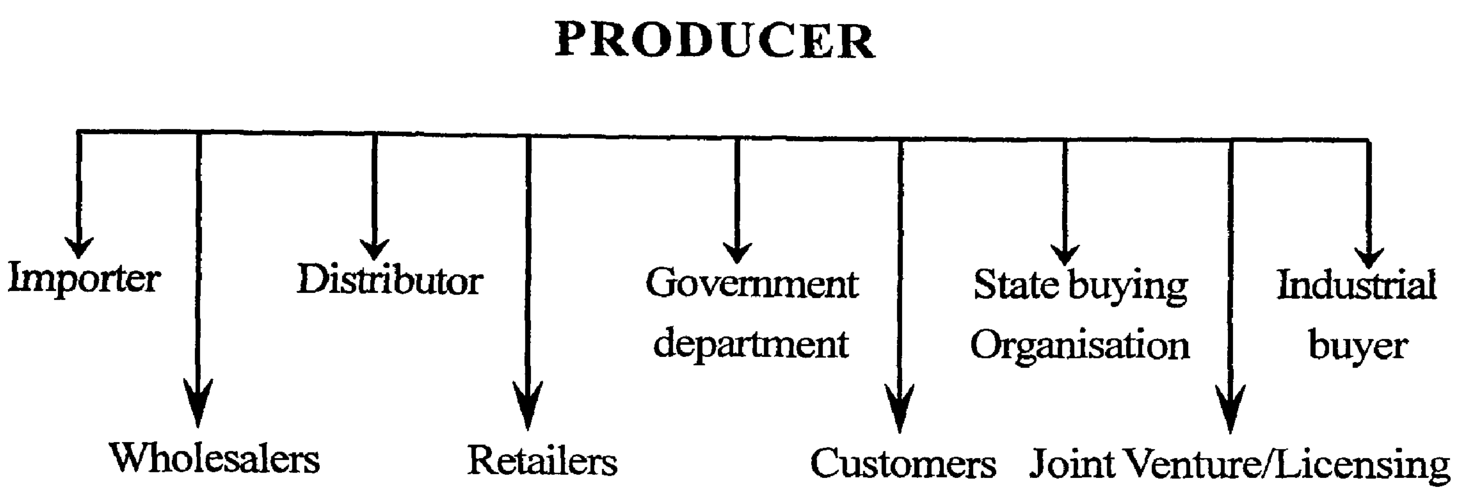

Fig. 7.2 Direct Exporting Channels

Before discussing the influence of marketing environment on the choice of the distribution channel, let us take a general look at the common distribution channels or channel levels.

The channel levels refer to the number of intermediaries involved in the channel. The following are the channel levels.

(i) Zero level channel, also called direct marketing channel, is essentially characterised by the producer making a direct sale to the ultimate buyer. The three important ways of direct selling are: (1) Door to door; (2) Mail order; and (3) Manufacturer owned stores.

(ii) One-level channel is characterised by one selling intermediary like the retailer or the agent.

(iii) Two-level channel contains two intermediaries, e.g., wholesaler/ distribution and retailer.

(iv) Three-level channel has three intermediaries, i.e., agents, wholesales and retailers.

There are also higher level channels. Different channel levels are shown in Fig. 7.1. It should be noted that more than one channel are used by several companies (multi channel strategy). For example, a book publisher may sell direct to the ultimate buyer and at the same time, use one-level (retailer) and two-level (distributor and retailer) channels. Similarly textile

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companies like the Reliance and Bombay Dyeing make direct sales through their exclusive show rooms and at the same time use other channels.

In several cases, the distribution system is very complex and the extent of complexity may vary between markets.

Types of Foreign Intermediaries

A brief account of the important foreign intermediaries is given below:

Importers

Although all the foreign customers who buy directly from the exporter are technically importers, here the term importer refers to one who imports the product in large quantities either as an agent for a foreign buyer or for resale. Such importers include, among others, large import houses and trading houses like the japanese trading companies mentioned earlier.

The importers who buy on their own account may sell the product to the distributors, industrial and other institutional customers, wholesalers etc.,

Distributors

A distributor who buys directly from the exporter and holds large stocks of a product has an exclusive right to sell the product in a particular area or to a particular type of customer.

The distribution may resell the product to the wholesalers, retailer or consumers.

Wholesalers

Although wholesalers often buy from the importers or distributors, there are also wholesalers who buy directly from the exporters.

Retailers

Large retailers may buy directly from the exporters. Departments stores, supermarkets or other types of chain stores are among the most important direct retail buyers. Other retailers may depend on distribution or wholesalers.

Multiple Channels

In some cases, an exporter may use multiple channels, i.e., more than one channel for a product. For example, an exporter may sell directly to the wholesalers, large retailers and institutional consumers, even while having distributors.

Government Departments

In some countries government departments buy large quantities of certain goods, oftern on a long-term basis. These are generally essential goods of mass consumption or for use in government departments.

State Buying Organisations

In some countries the imports of goods are done by the government organisations, like state trading organisations. This was the case until recently in the centrally planned economics. In India, imports of several commodities are canalised, i.e., only designated government agencies can import these goods.

Joint-Ventures and Licensees / Franchisees

A very important export marketing channel that is growing in popularity is the collaborative arrangement between exporter and foreign firm.

Joint-ventures, i.e., enterprises in which both ownership and management are shared by firms from two or more countries, are very common between firms from developed and developing countries.

Firms from developed countries may supply technology and participate in the equity in joint ventures in developing countries. The collaboration with the developed country firm becomes very helpful in marketing the product in the foreign countries. Such joint-ventures are very common in several industries including food processing industry.

Another type of international collaboration is the licensing or franchising.

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7.3 MARKETING ENVIRONMENT AND INTERNAL DISTRIBUTION

As indicated earlier, the nature of the distribution system in a market is generally influenced by the relevant business environment it is, therefore, quite natural that some times the nature of the physical distribution system in the foreign market is quite different from that in the domestic market. An international marketer from an advanced economy may find that some of the physical distribution facilities available to him in his home market are non-existent in the foreign market, especially in the less developed economies.

A particular distribution channel best suited for a product in one market may be inappropriate in another market. Sometimes, the exporter will have to take the existing distribution system in the foreign market for granted. For instance when customers are accustomed to buying a particular product from a particular source, it is not easy to switch them to different source.

Within country channels of distribution vary considerably from country to country for consumer goods. As Fayerweather points out, there are striking differences in the size distribution of retailling units. For example, food channels in the USA are dominated by the large supermarket chains. In France supermarkets are progressing, but food retailing is still dominated by small merchants with modest stores; in India food is sold mainly through thousands of individual tradesmen squatting in open markets or selling in tiny shops.

Second, the services provided by retailers vary considerably, with much more personal attention and bargaining in countries such as India than in western countries. As against this, in the high income countries like the USA, self-service is the dominant pattern. Third, the assortment of goods handled by retailers varies, tending toward greater specialisation in lower-income economies. Fourth, the retailing system tends to be stratified in levels that parallel the class structure of society. There will be exclusive stores that

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cater to the wealthy, others that serve the middle class, and still others, usually open markets and "hole-in the wall shops" that see goods to the low-income groups.

While super market and chain stores play a dominant role in certain markets like the U.S. and Japan, in Europe they are not so well developed and in many countries they are either absent or are insignificant. The Daiei Inc., Japan's largest retail group land one of the world's top three), which operates through nearly 200 super stores and thousands of convenience and speciality affiliate stores throughout Japan is regarded as the retail outlet through which products of reputed quality from many countries reach 40 million Japanese households.

The large distribution firms are increasing their might in certain areas. For example, it is reported that ten years ago one large retail organisation took 10 percent of the output of a major American food product firm, today on lage retailer takes 45 per cent. Obviously this leaves the manufacturer very vulnerable.

Such mass merchandisers as the US. giants Sears and Kmart place huge orders with suppliers and keep large inventories. In Europe, however, there are not so many huge chain store operations. The buyers tend to be smail, and they don't stock much inventory. So when they want some inventory, they want it urgently. So exporters who are accustomed to selling the U.S. giants encounter a different situation in Europe. However, the economic integration of Europe is likely to result in some restructuring of the channel system including the emergence of large chain stores.

The international retailing firms, i,e., firms operating in two or more countries, have been growing in importance. These include both general merchandise retailers and specialised retailers. There has also been a growth of international mail order business. Sears, F.W. Wool worth, K. Mart and Marks and Spencer are among the important general merchandise retailers.

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International specialised retailers include Mothercase (clothes and retailed items), Roche and Bobois (furniture) etc. There are also several international fast-food franchisers like McDonald's Pizza Hut, Burger King and Kentudy Fixed Chicken.

Because of the critical importance of distribution in developing business, several companies have been investing to build up a strong distribution infrastructure. For examples, during 1974-84, the Japanese investment in the U.S. grew at an average annual rate of 23 per cent. The bulk of this investment, over two-thirds, was in the wholesale sector and as such was geared towards building a distribution and marketing infrastructure for the Japanese imports.

The distribution system of a country may have some other peculiarities too. For example, the trade in one or other product in several countries is characterised by ethnodomination which is defined as a situation where an ethnic group occupies a majority position in a channel of distribution with respect to the ownership and control of physical and financial resources, or through the manipulation of social environment. The control is manipulated through the familiar coercive and collusive practices such as price setting (in both product and factor markets) exclusive dealing arrangements and discrimination among customers or suppliers.

It is pointed out that a common model is an ethnic group, often a "stranger or so joumer minority, selecting or happening into a trade opportunity in a particular commodity. Members of the ethnic group then master the intricacies of supply and demand in world market for that commodity while learning the mechanics of foreign trade in the host country. Then, through time they become established and widely recognised as a reliable buyer or seller of the commodity. From this solid base, dominance is then established, "In many cases of ethnodomination, it would be beneficial for the international marketer to coopt rather than compete with the dominant ethnic group.

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Foreign companies often find it difficult to understand the complexities of the distribution system and to achieve effective distribution all by itself in many markets. It is particularly so in Japan. It is pointed out that Japan's distribution system is among the most complex and difficult in the world. In Japan, there tends to be a greater degree of involvement on the part of wholesalers. A rough estimate published by Japan's Manufactured Imports Promotion Organisation shows that, until recently the ratio of wholesale to retail sales was four to one in Japan as compared to 1.6 to one in the U.S : 1.9 to one in Great Britain; 1.7 to one in West Germany and 1.2 to one in France.

Many foreign affiliated companies failed in the Japanese market due to the difficulty of getting their goods out to the retailers. It is therefore, feit that choosing a right partner for a joint venture arrangement can have a major impact on a firm's competitiveness. The right partner can serve as a cultural bridge between the manufacturer and the market. Nabisco is a good example of a company that has dealt appropriately with cultural differences. Establishing a joint venture with Yamazaki Bakery and using Yamazaki's distribution power. Nabisco then gave Yamazski the initiative to develop new products for Japan. Knowing the tastes and preferences of the Japanese people, the company introduced cream sandwich crackers and followed traditional promotion methods on dealing with wholesalers and retailers. Sure enough, the new product was a big hit throughout the nation.

In short, the distribution strategy for a market should be based on, among other things, the relevant environment factors, as has been brought out by the different cases cited above. However, the basic factors which influence the choice of distribution channels within the foeign markets are the same as in the domestic market.

Factors Influencing Channel Selection

The important factors influencing the choice of channel(s) are the following:

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(i) Product Characteristics: Product characteristics, like unit value, perishability, bulk degree of product standardization, complexity and service requirements, determine to some extent, the way the product should be distributed.

(ii) Market and Customer Characteristics: Market and customer characteristics, such as the size and location of the market, the number and geographical dispersal of the customers, the frequency of purchase and the typical size of the purchase, customers buying habits and susceptibility to different selling methods are important factors to be considered in the choice of the channel.

(iii) Middlemen Characteristics: Middlemen differ in their ability and willingness to carryout promotional activities and to push the product. The margin or commission for the middlemen is another important issue. The type of products dealt with by a particular intermediary should also be an important consideration. Further, the marketer may be restricted in his choice of channel by the non-availability of particular middlemen.

(iv) Company Characteristics and Objectives: The choice of the channel is also influenced by such factors as the company's size, financial strength, product mix, past channel experience, overall marketing policies and channel objectives.

(v) Competitors Characteristics: Like any other marketing decision, the channel decision is influenced by the nature of the competitors. Sometimes, it may be appropriate to adopt a channel policy similar to that of the competitor, but sometimes it may be more profitable to design quite a different channel policy.

(vi) Environmental Characteristics: The channel design is also influenced by such environmental factors as the economic situation, social and cultural factors, the physical environment and government policies and regulation.

7.4 INTERNATIONAL LOGISTICS

The cost and efficiency of the distribution have direct relationship with the logistics. Logistics, therefore, is a factor ,hich affects the competitiveness of a firm.

International logistics is defined as "the designing and managing of a system that contracts and flow of material into, through, and out of the international corporation. In encompasses the total movement concept by covering the entire range of operators concerned with product movement".

It follows from the above definition that logistics comprises of:

(i) Management of movement of raw materials, parts and suppliers into and through the firm: and

(ii) Management of movement of finished products to the consumer.

The major objective of the logistics management is to make the physical distribution as effective as required at the lowest cost possible. Attempts to increase the effectiveness of the distribution may sometimes tend to increase the cost and attempts to cut costs may impair distribution effectiveness. The trade off and optimization, therefore are often a complex problem.

Components of Logistics Management

Logistics mnagement comprises of five major interdependent areas.

Fixed Facilities Location: The major consideration is the location of fixed facilities like production and warehousing such a way as to maximise the total efficiency of the logistics production and warehousing such a way as to maximise the total efficiency of the logistics system. Factors like future potentials of the markets, future plans of the company, competitive factors, political stability, etc are also import considerations.

Transportation: The modes of transportation, frequency of shipping etc., are determined on consideration of several factors such as the cost, speed, safety, lead time, transit time, type of product, natural environment factors etc.

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Inventory Management: The main objective of inventory management is to minimise the cost of the inventory while ensuring smooth supplies. Developments in inventory management by the customers, order processing and in the total logistics system have made inventory management both challenging and efficient.

Order Processing: The efficiency of order processing by the client as well as the company have important implications for inventory levels and other aspects of the logistics. Rapid order processing shorten the order cycle and allows for lower safety stocks on the part of the client. Exporters from developing countries like India face the challenge of coping up with such situations.

Materials Handling and Warehousing: Marerials handling and warehousing are also an important part of the logistics management. The technologies in use in materials handling and tranportation may be different in different countries. Differences in natural factors like climatic and weather conditions may also make warehousing requirements varied.

7.5 MARKET ENTRY STRATEGIES

One of the most important strategic decisions in international business is the mode of entering the foreign market. On the one extreme, a company may do the complete manufacturing of the product domestically and export it to the foreign market. On the other extreme, a company may do, by itself, the complete manufacturing of the product to be marketed in the foeign market there itself. There are several alternaties in between these two extremes. The choice of the most suitable alternative is based on the relevant factors related to the company and the foreign market.

In some cases, the alternatives available may also be limited. For example, the policy of some governments may not be very positive towards foreign investments. Several governments have a definite preference for joint ventures over complete foreign townership. In some cases, the government

may prefer foreign investment leading to import substitution to perpetual import of a product. Thus, in some cases, government policies may rule out the best alternative if the environment w .re free.

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Important foreign market entry strategies are the following:

(i) Licensing / franchising
(ii) Exporting
(iii) Contract manufacturing
(iv) Management contract
(v) Turnkey contr. .s
(vi) Fully owned manufacturing facilities
(vii) Joint venturing
(viii) Third country location
(ix) Mergers and acquisitions
(x) Strategic alliance
(xi) Countertrade

INTERNATIONAL LOGISTICS: Components of Logistics Management:
a) Fixed Facilities Location,
b) Transportation, Inventory Management,
c) Order Processing,
d) Materials Handling and Warehousing

i) LICENSING AND FRANCHISING

Licensing and Franchising which involve minimal commitment of resources and effort on the part of the international marketer, are easy ways of entering the foreign markets.

Under international licensing, a firm in one country (the licensor) permits a firm in another country (the licensee) to use is intellectual property (such as patents, trademarks, copyrights, technology, technical know-how, marketing skill or some other specific skill). The monetary benefit to the licensor is the royalty or less which licensee pays. In many countries, such fees or royalties are regulated by the government, it does not exceed live percent of the sales in many developing countries.

A licensing aggreement may also be one of cross licensing, wherein there is a mutual exchange of knowledge and for parents, In cross-licensing, a cash payment may or may not be involved.

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Franchising is "a form of licensing in which a parent company (the franchise) grants another independent entity (the franchisee) the right to do business in a prescribed manner. This right can take the form of selling the franchisor's products. using its name, production and marketing techniaques, or general business approach". One of the common forms of franchising involves the franchisor supplying an important ingredient (part,

material etc.,) for the finished product, like the Coca Cola supplying the syrup to the bottlers.

Usually, franchising involves a combination of many of the elements mentioned above. The major forms of franchising are manufacturer - retailer systems (such as automobile dealership); manufacturer - wholesaler systems (such as soft drink companies), and service firm - retailer systems (such as lodging services and fast food outlets).

There are also cases of cross or reverse franchise agreements. For example, the I.T.C. Hotels and ITT Sheraton Corporation had such an aggrement under which ITC Hotel's Welcome Group franchised two of its hotels in Banglok and Hong Kong to ITT Sheraton, holding, in exchange, the franchise for Sheraton in India. Later the partners decided to set up a joint venture - ITC Sheratorn - Sheraton having a majority stake, to manage all new ITC hotel projects in India.

One of the growing bonds recently has been trademark licensing, Czinkota and Ronkainen point out that trademark licensing has become a substantial source of world wide revenue. The total volume of trademark was expected to reach $ 75 billion by 1990. The names or logos of designers, literary characters, sports teams, and movie stars appear on clothing games, goods and beverages, gifts and novelties, toys and home furnishings.

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A number of foreign companies have entered the Indian market, both industrial and consumer goods, by licensing. The IFB washing machine, for example, was manufactured in India under licence from Bosch of Germany. The U.S. Multinational General Electric (GE) has licensed its patented technology to a small scale unit in India, established for the manufacture of high intensity discharge (HD) fittings. As electrical fittings were reserved for the small scale sector, GE, had, perhaps no alternative to enter the market.

After four years of scouting around Nike International Ltd., the world's largest sports shoe and apparel company, finally decided in 1995 to enter the Indian market by licensing Sierra Industrial Enterprises Ltd., the licensee, will must in setting up the complete quality; control, marketing and distribution operations and will pay Nike 5 per cent royalty on ex-factory price of both footwear and apparel for the use of the brand name.

International licensing franchising have grown very substantially. Czinkota and Ronkainer succinctly describe their attractiveness or reasons for popularity;

"As an entry strategy, it requires neither capital investment nor knowledge and marketing strength in foreign markets. By earning royalty income it provides an opportunity to explicit research and development already committed to Licensing reduces risk of exposure to government intervention in that the licensee is typically a local company that can provide leverage against government action. Licensing will help to avoid host country regulations that are more prevalent in equity ventures. Licensing may also serve as a stage in the internationalization of the firm by providing a means by which foreign markets can be tested without major involvement or capital or management time".

Another advantage of licensing is that it may be employed as a preemptive strategy against competitors by combing the foreign markets before the competitors could enter. Thus the General Electric of U.S.A. by licensing its advanced gas turbine technology to foreign producers who were potential competitors could eliminate possible competition from them.

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Licensing has been used by many companies also to harvest their obsolete products. The strategy has been employed, in particular, in developing countries.

When the market is closed by the host country regulations either to imports or to foreign investment, licensing may provide a viable opportunity to enter such a market.

From the point of veiw of the licensee, licensing provides the great advantage of entering the market with a proven product technology or marketing intangible without having to run the risk of R & D failures. It also reduces the investment requirements.

In the past, when many U.S. companies, with the prevalent attitude that "we have enough business right here in the 'States', were not seriously looking to expand globally, licensing appeared to be a very attractive proposition. For example, between 1960-67 about 200 licensing agreements were concluded between the U.S. and Japanese firms for transfer of T.V. technology to Japan. Firms in several other industries also licensed their technology etc. to foreign firms. But several of them were shocked to learn that they had grossly underestimated the vast potential of the foreign markets. For example, one U.S. firm that licensed an English firm to manufacture and sell its products in the United Kingdom, but agreed to give the English firm and exclusive right to sub-licence the U.S. expertise in other countries, for it then had no marketing commitment to exports. Within a few years, global markets developed for the company's products, and was stuck with another party getting the benefits. Another U.S. firm, a drug manufacturer, gave an Asian Company a manufacturing licence. The Asian market, which up to then had been nothing at all, boomed, leaving the U.S. firm as almost an outsider.

One of the important risks of licensing is that the licensor would be developing a potential competitor, the licensee would become a competitor after the expiry of the licensing agreement. The licensee may even develop capabilities to introduce better products. The skill of the Japanese in product

improvement is well-known. In several electronic products, including T.V., the Japanese have become world leaders or strong competitors in due course. Licencees in the developing countries might gain an edge over the licensor, after the term of the licence, because of their low cost of labour which would enable them to compete with the erstwhile licensor in his own home market as well as in the foreign market. Some companies are, therefore, hesitant to enter into licensing agreements.

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ii) EXPORTING

Exporting the most traditional made of entering the foreign market, is quite a common one even now. As pointed to in Chapter - 1, international trade had been growing much faster than the world output resulting in greater world economic integration.

Exporting is the appropriate strategy when one or more of the following conditions prevail:

1. The volume of foreign business is not large enough to justify production in the foreign market.
2. Cost of production in the foreign market is high.
3. The foreign market is characterised by production bottlenecks like infrastructural problems, problems with materials supplies etc.
4. There are political or other risks of investment in the foreign country.
5. The company has no permanent interest in the foreign market concerned or that there is not guarantee of the market available for a long period.
6. Foreign investment is not favoured by the foreign country concerned.
7. Licensing or contract manufacturing is not a better alternative.

Exporting is attractive than other modes particularly when under utilised capacity exists. Even when there is no excess capacity expansion of the existing facility may sometimes be easier and less costly than setting up

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production facilities abroad. Further, many governments, as in India, provide incentives for licensing or contract manufacturing the only avenue open is exporting.

Although exporting may turn out to be the best alternative under a given set of conditions or environmental factors, there are several sets of conditions which make exporting less attractive than one or more of other alternatives. Policies of some foreign governments disciriminate against imports, in some cases import is even banned it may be noted that hostility against imports have been encouraging substitution of exports by production in the foreign markets. A number of foreign companies have set up production facilities in the European Community to overcome the import barriers Japanese tranplants in North America have also been caused to a considerable extent by the hostility towards imports.

Besides, in a number of cases cost considerations make foreign production or assembly preferable to other entry strategies. Further, as noted in the introductory chapter, exporting marks the first stage in the evolution of international business of many companies. As the international business grows or as the environment changes or to expand the business it may become necessary to change the strategies.

There are, broadly two ways of exporting viz., indirect exporting and direct exporting.

Under contract manufacturing a company doing international marketing contracts with firms in foreign countries to manufacture or assemble the products while relating the responsibility of marketing the product. This is a common practice in international business. There are a number of multinational and affiliates of multinational which employ this strategy in India in respect of some of the products they market, like Park Davis, Hindustan Lever, etc.

iii) CONTRACT MANUFACTURING

Contract manufacturing has the following advantages:

1. The company does not have to commit resource for setting up production facilities.

2. It frees the company from the risks of investing in foreign countries.

3. If idle production capacity is readily available in the foreign country, it enables the marketer to get started immediately.

4. In many case, the cost of the product obtained by contract manufacturing is lower than if it were manufactured by the international firm. For example, the product cost in the small scale sector is much lower than in the large scale sector for many products because of the lower wages, lower overheads, and tax concessions. Moreover, if excess capacities are available with existing, if may even be posible to get the product supplied on the marginal cost basis.

5. Contract manufacturing also has the advantage that it is a less risky way to start with. If the business does not pick up sufficiently, dropping it is easy; but if the company had established its own production facilities, the exit would be difficult. It may be interesting to note that the availability of excess capacity with some soap manufactures enabled several foreign companies to experiment with new brands of toilet soap in the Indian market. For example, Godrej soaps manufactured Dettol for Reckitt and Coleman Clearton for Nicholas Laboratories, Johnson's Baby Soap for Johnson and Johnson, and Ponds Dreamflower, cold Cream and Sandalwood for Ponds. It may be noted that some of these brands have not succeeded in the market. The cost to the company of the product failure is relatively low when it did not invest in production facilities.

6. Moreover, contract manufacturing may enable the international firm to enlist national support.

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Contract manufacturing however, has the following disadvantages.

1. In some cases, there will be loss of potential profits from manufacturing.
2. Less control over the manufacturing process.
3. Contract manufacturing also has the risk of developing potential competitos.
4. It would not be suitable in cases of high-tech products and cases which involve technical secrets etc.

iv) MANAGEMENT CONTRACTING

Under the management contract, the firm providing the management know-how-many not have any equity sale in the enterprise being managed. In short, "In a management contract the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership. "Thus, as Kotler observes, management contracting is a low-risk method of getting into a foreign market and it starts yielding income right from the beginning. The arrangement is especially attractive if the contracting firm is given an option to purchase some shares in the managed company within a stated period".

Management contract could, sometimes, bring in additional benefits for the managing company. It may obtain the business of exporting or selling otherwise of the products of the managed company or supplying the inputs required by the managed company.

Management contract enables firm to commercialize existing know-how that has been built up with significant investments and frequently the impact of fluctuations in business volumes can be reduced by making use of experienced personnel who otherwise would have to be laid off.

Management contracts, obviously, have clear benefits for the clients. They can provide organisational skills not available locally, expertise that is immediately available rather than built up, and management assistance in the form of support services that would be difficult and costly to replicable locally.

Management contracts have disadvantages under certain conditions. As Kotler observes, the arrangement is not sensible if the company can put its scarce management talent to better use, or if there are greater profits to be made by undertaking the whole venture. management contract may prevent a company from setting up its own operations for a particular period.

One possible risk from the point of view of the client is over-dependence and loss of control. The client should enable itself to steadily develop its own capabilities.

Some Inidan companies - Tata Tea, Harrisons, Malayalam and AVT - have contracts to manage a number of plantations in Sri Lanka Tata Tea also has a joint venture in Sri Lanka, namely, Estate Management Service Pvt. Ltd.,

v) TURNKEY CONTRACTS

Turnkey contracts are common in international business in the supply, erection and commissioning of plants, as in the case of oil refineries, steel mills, cement and fertilizer plants etc; construction projects and franchising agreements.

"A turnkey operation is an agreement by the seller to supply to buyer with a facility fully equipped and ready to be operated by the buyer's personnel, who will be trained by the seller. The terms is sometimes used in fast-food franchising when a franchiser agrees to select a store site, build the store, equip it. train the franchisee and employees and sometimes arrange for the firancing".

Many turnkey contracts involve government public sector as buyer (or seller in some cases).

A turnkey contractor may subcontract different phases/parts of the project.

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vi) FULLY OWNED MANUFACTURING FACILITIES

Companies with long term and substantial interest in the foreign market normally establish fully owned manufacturing facilities there. As Drucker points out, "It is simply not possible to maintain substantial market standing in an important area unless one has a physical presence as a producer".

A number of factors like trade barriers, differences in the production and other costs, government policies etc, encourages the establishment of production facilities in the foreign markets. More information about this is provided in the chapter on International Investment.

Establishment of manufacturing facilities abroad has several advantages. It provides the firm with complete control over production and quality. It does not have the rik of developing potential competitors as in the case of licensing and contract manufacturing.

Wholly owned manufacturing facility has several disadvantages too. In some cases, the cost of production is high in the foreign market. There may also be problems such as restrictions regarding the types of technology, non-availability of skilled labour, production bottlenecks due to infrastructural problems, etc If the market size is small, a separate production unit for the market may be uneconomical. Foreign investment also entails political risks.

Fully owned enterprises may not be allowed or favoured in some countries particularly in low priority areas.

Moreover this method demands sufficient financial and managerial resources on the part of the company.

ASSEMBLY OPERATIONS

As Miracle and Albaum point out, a manufacturer who wants many of the advantage that are associated with overseas manufacturing facilities and

yet does not want to go that far may find it desirable to establish overseas assembly facilities in selected markets. In a sense, the establishment of an assembly operation represents a cross between exporting and overseas manufacturing.

Having assembly facilities in foreign market is very ideal when there are economies of scale in the manufacture of parts and components and when assembly operations are labour intensive and labour is cheap in the foreign country. It may be noted that a number of U.S. manufacturers ship the parts and components to the developing countries, get the product assembled there and bring it back home. The U.S. tariff law also encourages this. This, even products meant to be marketed domestically are assembled abroad.

Assembling the product meant for the foreign market in the foreign market itself has certain other advantages, besides the cost advantage. The import duty is normally low on parts and components that on the finished product. Assembly operations would satisfy the "local content" demand, at least to some extent. Because of the employment generation, the foreign government's attitude will be more favourable than towards the import of the finished product.

Another advantage is that the investment to be made in the foreign country is very small in comparison with that required for establishing complete manufacturing facilities. The political risks of foreign investment is, thus, not much.

vii) JOINT VENTURES

Joint venture is a very common strategy of entering the foreign market. In the widest sense, any form of association which implies collaboration for more than a transistory period is a joint venture (pure trading operations are not included in this concept). Such a broad definition encompesses many diverse types of joint overseas operations. viz.,

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1. Sharing of ownership and management in an enterprise.
2. Licensing franchising agreements.
3. Contract manufacturing
4. Management contracts.

Three of the above have already been discussed in the preceding sections. The following paragraphs are confined to the first category referred to above, i.e., joint ownership ventures. What is often meant by the term joint venture is joint ownership venture.

The essential feature of a joint ownership venture is that the ownership and management are shared between a foreign firm and a local firm. In some cases there are more than two parties involved. For example, Pepsi's Indian joint venture voltas and Punjab Agro Industries Corporation.

A joint ownership venture may be brought about by a foreign investor buying an interest in a local company, a local firm acquiring an interest in an existing foreign firm of by both the foreign and local entrepreneurs jointly forming a new enterprise.

It is also a common practice to split the local interest between a partner and various public participation (including public sector firms or industrial development organisations). Such a strategy may enable the international firm to retain much control despite a minority holding as the power of the remaining shares is spread out. Further, equity holding by the public would help the enterprise get some public support. Partnership with government organisation may help to obtain favourable treatment from the government.

In countries where fully foreign owned firms are not allowed or favoured, joint venture is the alternative if the international marketer is interested in establishing an enterprise in the foreign market. Many foreign companies entered the communist, socialist and other developing countries by joint venturing.

One important advantage of joint enturing is that it permits a firm with limited resources to enter more foreign markets than might be possible under a policy forming wholly owned subsidiaries.

In some cases, it is also possible to swap know-how (such as patent rights for equity) in forming joint venture as a means of securing ownership in foreign ooperations.

Partnership with local firms has certain specific advantages. The local partner would be in better position to deal with the government and the publics. Further, there would not be much public hostility when there is a local partner. It would be much less when there is equity holding by the government sector and the public.

A right local partner for a joint venture can have a manor impact on a firm's competitiveness because such a partner can serve as a cultural bridge between the manufacturer and the market. For example, several successful foreign affiliated companies have demonstrated how the right partnership can strongly enhance a firm's competitive edge and its ability to adopt to and cope with the idiosyncrasies of the Japanese market.

As pointed out in the chapter on Globalization of Indian Business many Indian firms have used the joint venture route to enter foreign markets.

The economic liberalisation has caused a spurt in joint ventures in India. In the five years since the liberalisation of 1991, more than four thousand joint ventures were entered into between Indian companies and transnatiols.

Joint ventures present a mixed picture of success and failure. While some joint ventures are very successful, some face problems from the very beginning and in case of some others problems develop after a period of mutual benefit and success.

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A Mckinsey wold study of more than 200 alliances (principally joint ventures) has shown that the median life span of them is only seven years and in more than 80 percent of the cases, if ends in one partner selling out to the other.

In fact, joint ventures are not necessarily meant to be permanent. They are meant to serve cpecific objectives within a period of time and once the objectives are achieved the continuation depends on the reassessment of the situation by the partners.

A number of joint ventures fail to achieve the objectives by either or both the partners and this could naturally result in the breakdown of the alliance.

A joint venture may go through "several points of crisis, caused by the realisation on the part of either - sometimes both - of the partners that its expectations are not being fulfilled and perhaps, even being negated". Chances of such flash points are more with the flattering out of the gains curve on any of the parameters that govern either partner's decision to be involved in the joint venture. For, at this point, the gains of, one of the partners become disproportionate in those of the other, leading the former to re-examine the rationally of retaining the relationship. "Such flash points, however, need not necessarily result in the termination of the joint venture, they may be managed so that there will be more equitable gains from the joint venture.

One of the important reasons for the failure of joint ventures in India is the unequal resource and bargaining powers of the partners. The new business environment that resulted from the liberalisation has increased the cases of failures on account of this factor. Many transnationals wanted to hike their share in the equity of the joint venture. This was the reason for the end of the 28 year old partnership between Royal Dutch Shell and NOCIL. Now that foreign firms are able to set up fully owned subsidiaries, a number of foreign firms have turned to such ventures, discarding or

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neglecting their existing joint ventures in the country. There are also several cases of the Indian Parner's stake, fully or partially, sold to the foreign partner because of financial problems. Similarly when the Inidan partner is unable to match up with the resourceful foreign firm in bringing in additional funds for expansion, the Indian partner's share of the equity holding falls.

A joint venture can succeed only if both the partners have something definite to offer to the advantage of the other, and reap definite advantages, and have mutual trust and respect.

viii) THIRD COUNTRY LOCATION

Third country location is some times used as an entry strategy. When there is no commercial transactions between two nations because of political reasons or when direct transactions between two nations are difficult due to political reasons or the like; a firm in one of these nations which wants to enter the other market will have to operate from a third country base. For example, Taiwanese entrepreneurs found it easy to enter People's Republic of China through bases in Hong Kong.

Third country location may also be helpful to take advantage of the friendly trade relations between the third country and the foreign market concerned. Thus, for example, Rank Xerox found it convenient to enter the USSR through its Indian joint venture Modi Xerox.

There are several cases of countries not having direct commercial transactions. For example, it was true of Israel and Arab Countries. In the past, government of India did not permit trade with South Africa and Mauritius.

Sometimes commercial reasons encourage third country location. For example, several Japanese companies established production facilities in developing countreis to circumvent the non-tariff barriers (like quotas, voluntary export restrains and orderly marketing arrangement) to imports to countries

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like the United States and also to avail of the preferential treatment accorded by the developed countries to the imports from the developing countries.

Further, third country location may be resorted to reduce cost of production and thereby to increase price competitiveness to facilitate market entry or for improving maintaining the market position. The incentives offered by governments, particularly of the developing countries, for investment and exports encourage such third country loction. The export processing zones are particularly attractive in this respect.

ix) MERGERS AND ACQUISITIONS

Mergers and Acquisitions (M & A) have been a very important market entry strategy as well as expansion strategy. A number of Indian companies have also used this entry strategy.

Mergers and acquisitions have certain specific advantages.

I provides instant access to markets and distribution network. As one of the most difficult areas in international marketing is the distribution, this is often a very important consideration for M & A. The General Electric (GE), USA, took over Hungay's light bulb maker Tungsram. Instead of starting a 'greenfield' operation in Hungary by building a new factory and hiring the people needed, why did the multinational giant take over Tungsram. A typical Hungarian enterprise bogged down with so many problems calling for a painful restructuring? The answer is that Tungsram give GE entry to the East European light bulb market, from which it had been virtually excluded by Philips and Osram. Tungsram's share of the market in the 1980s was respectable 9 to 10 percent.

Another important objective of M and A is to obtain access to new technology or a patent right.

M and A also has the advantage of reducing the competition.

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Mergers and acquisitions may also give rise to some problems which arise mostly because of the deficiencies of the evaluation of the case for acquisition. Sometimes the cost of acquisition may be unrealistically high. Further, when an enterprise is taken over, all its problems are also acquired with in. The success of the enterprise will naturally depend on the success in solving the problems.

It has also been observed that the takeover spree lands several companies in trouble. For example, in the early 1990s a number of Japanese companies began to sell some of the foreign business which they had acquired a few years ago. The main reason for this was the financial crunch.

x) STRATEGIC ALLIANCE

Strategic alliance has been becoming more and more popular in international business. Also known by such names as entente and coalition this strategy seeks to enhance the long term competitive advantage of the firm by forming alliance with its competitors, existing or potential in critical areas, instead of competing with each other. "The goals are to leverage critical capabilities, increase the flow of innovation and increase flexibility in responding to market and technological changes".

Strategic alliance is also sometimes used as a market entry strategy. For example, a firm may enter a foreign market by forming an alliance with a firm in the foreign market for marketing or distributing the former's products. AUS pharmaceutical firm may use the sales promotion and distribution infrastructure of a Japanese pharmeceutical firm to sell its products in Japan, In return, the Japanese firm can use the same strategy for the sale of its products in the U.S. market.

Strategic alliance, more than an entry strategy, is a competitive strategy. Strategic alliances which enable companies to increase resource productivity and profitability by avoiding unnecessary fragmentation of resources and

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duplication of investment and effort are growing in popularly and are very conspicuous in such industries as pharmaceuticals, computer, nuclear, telematics etc. which are characterised by high fixed costs in R and D and manufacturing and or high and fast changing technology.

Examples of cross boarder alliances in the telematics sector which essentially bring together two separate streams of technology-that related to information gathering and processing and that related to information transmission-include IBM's agreements with STET, Italy's state owned telecommunications company and Nippon Telegraph and Telephone (Japan) to develop computer communications services, and a joint research venture with Ericson (Sweeden) to explore the linking of data-management technology with digital switching technology.

The automobile industry has been witnessing several alliances for overseas operations. The Isuze Motors Ltd and Fuji Heavy Industrial Ltd of Japan have set up a joint plant in the U.S which can build cars for Fuji and trucks for Isuzu in the same line. Some Japanese automakers have joined forces with foreign big names like General Motorst and Chrysler. The European car manufacturers are also learning up to enhance their competitiveness, often in one-off projects to produce, say, an engine of transmission. Peugeot, Renault and Volvo already share V6 engine.

According to an alliance between Tatas and TFR, a leading French leather finisher and European marketer. Tatas will integrate its production with the exact colour, texture and other requirements of large European buyers, while TFR will provide the existing marketing network, links to key buyers, its name and reputation and knowledge of the latest fashion trends.

Tata Tea has entered in to an alliance with Tetley so that the marketing expertise of Tetley is available to market tea abroad.

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Explaining international production, Dunning observes that tihin the service sector strategic alliances are less common, but those between hotels, airlines and four operators and between accountant and management consultants are increasing while international consortia of investment banking and construction firms have long been a feature of the world commercial seneario.

xi) COUNTERTRADE

Although the major reason for the substantial growth of counter trade is its use as a strategy to increase exports, particularly by the developing countries, countertrade has been successfully used by a number of companies as an entry strategy. For example, pepsico gained entry to the USSR by employing this strategy.

Countertrade is a form of international trade in which certain export and import transactions are directly linked with each other and in which import of goods are paid for by export of goods, instead of money payments.

In the modern economies, most transactions involve monetary, payments and receipt, either immediate or defeated. As against this, "countertrade refers to a variety of unconventional international trade practices which link exchange of goods-directly or indirectly-in an attempt to dispense with currency transactions".

Forms of Countertrade

Countertrade takes several forms. The following are the most common among them.

Barter

Barter refers to direct exchange of goods of equal value, with no money and no third party involved in it. For example, a countertrade deal between the Minerals and Metals Trading Corporation of India (MMTC) and a Yugoslavian company involved import of 50,000 tonnes of rails of the

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value of about $ 38 million by the MMTC and the purchase by the Yugoslavian company of iron ore concentrates and pellets of the same value.

Buy Back

Under the buy back agreement, the supplier of plant, equipmant or technology agrees to purchase goods manufactured with that equipment, or technology. Under the buy back scheme, the full payment may be made in kind or a part may be made in kind and the balance in cash. Thus, a Rs.20 crore buy back agreement with the Soviet Union provided for the import of 200 sophisticated looms by the National Textiles Corporation. The buy back ratio was 75 per cent.

Compensation Deal

Under this arrangemant, the seller receives a part of the payment in cash and the rest in products.

Counter Purchase

Under the counter purchase agreement the seller recevies the full payment in cash bit agrees to speed an equivalent amount of money in that country within a specified period is classic example of this kind of an agreement was Pepsi Cola's trade with the U.S.S.R. Pepsi Cola got paid in Rubles for the sale of its concentrates in the USSR but spent this amount for purchase of Russian products like Vodika and wind.

The array of countertrade transactions reported in the trade press is intriguing. Coca Cola has traded its syrup for cheese from a factory it built in the Sovlet Union, for organes from an orchard it planted in Eqypt, for tomato paste from a plant installed in Turkey, for Polishbeer, and for soft drink bottles from Hungary. A Swedish band was rapid in coal for its concerts in Poland, Boeing exchanged ten 747s for 34 million barrels of Saudi Arabian oil. Argentina awarded a fertilizer factory contract to Czechoslovakian firms with the stipulation that suppliers buy vegetables and other agricultural goods produced with fertilizer.

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Many countertrade deals involve more than two parties and the process becomes complex and intricate. If the seller can get in exchange from the buyer the products which he wants or for which he has a ready market, the countertrade deal would be very smooth. However, it, several cases the buyer will not be in a position to offer in exchange goods which the seller really needs. In such cases, it may become necessary, for the deal to be struck, for the seller to accept the products the buyer can offer and hurt for buyers for such products. Kolter, for example, cities a very interesting case: Daimler Benz agreed to sell thirty trucks to Romania and accept in exchange 150 Romanian made jeeps, which it sold in Ecuador in exchange for bananas which it brough back to West Germany and sold to a West German super market chain in exchange for deutsch marks. Through this circuitous transaction, it finally achieved payment in German currency. Such complexities involved in many counter trade deals have given an important role to the international trading houses in such transactions. The insurmountable problem of finding suitable goods in return by the exporters "has redefined the importance in Japan of the trading houses" and "Japan's nine major general trading houses have all now established divisions houses" and to research countertrade opportunities". Counter deals were used by the Japanese trading houses as a means to boost their business with hard currency strapped China and the former USSR. These trading houses can take massive and complex countertrade deals "in their strides as they possess expertise in almost every field, practice every conceivable trading pattern, and can mobiles everything from staff to technology to finance. In addition, most are under the umbrellas of Zalbatsu that include powerful banks and/or construction firms. As if this were not enough, the trading houses are prepared to join forces with each other if necessary under the auspices of the awesome Nihon Boekikai, the body they set up themselves for the handling of joint ventures.

Growth of Countertrade

A significant volume of international trade is covered by countertrade. Countertrade of couse, is not a new phenomenon but the nineteen seventies and eighties witnessed a remarkable growth in this type of international trade, encouraged by many governments and actively involved by many trading houses, both private and public although organisations like GATT (WTO) ANF IMF do not favour it.

According to one report, the number of countries practising countertrade increased from 27 in 1973 to more than 90 by mid 1980s. A study by the US Departments of Commerce found that countetrade covered 38 per cent of East-West trade in 1981 compared to 28 per cent in 1976. According to the estimates made by the Economist quite some time ago, countertrade accounted for one-fourth of all world trade. However, the GATT in a report had noted that in 1983 countertrade accounted for about 8 per cent of the global trade. A source in the U.S. Department of Commerce expected some time ago that countertrade reflected, in one way or the other, in 50 per cent of the world trade by the end of the 20th current century. The political and economic changes in the former USSR and eastern Europe do not appear to adversely affect the growth of countertrade.

Countertrade has been growing with government patronage. According to one report more than 81 countries across the world had actual pro-countertrade government policies. Countertrade has been made mandatory by a number of countries including Indonesia, South Korea, Malaysia, and Austriallia in case of government public sector purchases of above certain specified value. Even though a number of other countries like Bangladesh, Burma, China, Pakistan, Phillippines, Singapore, Thailand and Taiwan have no mandatory provisions, all encourage their importers to settle transactions on countertrade basis. Indian public sector agencies like STc and MMTC are active in countertrade. Government of India set up a special cell in the Ministry of Commerce to monitor international developments in countertrade and to develop appropriate policy to enable Indian canalising agencies to make best use of opportunities available to boost India's exports through countertrade.

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It may be noted that the South Commission has advocated countertrade as a useful mechanism for overcoming difficulties of payments, export credit, and foreign exchange which might otherwise be serious obstacles to the expansion of trade between developing countries. As the commission point out, so far the bulk of countertrade between developing countries has been conducted mostly through intermediaries in the industrial countries. It is the developed countries who have benefited most from this type of trade, and they obviously have no interest in helping the indirect trading partners in the LCDs to establish direct contacts and develop durable trading relationships. Therefore, the developing countries need to organise themselves of countertrade as this can also pave the way for the growth of more conventional trading relations.

Reasons for the Growth of Countertrade

There have been several reasons for the countertrade to become popular. Obviously, the countries or companies concerned have encouraged or involved in countertrade due to certain specific advantages, although some of the benefits may be purely temporary.

(i) Countertrade was very common between the communist countries. It also became popular in respect of trade between the Communist Block and many developing countries because many developing countries were eagerly looking towards this block for increasing their exports, among other things, all this naturally led to the acceptance of the trade practice, preferred by these centrally planned economies.

(ii) Countertrade became popular in the East-West trade mainly due to the foreign exchange problems faced by the East Block Pepsi Cola is just one example of a multinational corporation which made considerable International business with the U.S.S.R. by countertrade.

(iii) When the foreign exchange problem became more severe for the developing countries following the oil price nikes, they began to actively pursue countertrade in a frantic bid a increase their exports by all means.

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(iv) Many companies in all advanced countries have resorted to countertrade for various reasons like selling obsolete products, increasing the sale of capital goods, increasing the aggregate business etc., Countertrade has also been resorted to by several companies to mitigate the effects of recession. Such recessionary situations in the capital goods industries in the advanced countries gave the developing countries on opportunity to push their exports by tying the imports of capital goods with exports by countertrade.

The results of a survey of 35 British companies involved in international countertrade by Shipley and Neale accorded with the descriptive literature in so far as the Eastern Bloc countries were the main group of countertrade customers, reflecting their acute currency and international debt problems. Nevertheless, substantial portions of the firms conducted countertrade in the world's less developed regions while there was some limited support for the claims that developed nations countertrade among themselves.

(v) The results of the above survey also suggest that countertrade enables firms to penetrate difficult markets, to increase sales volume and to achieve fuller capacity utilisation. It has also been revealed that countertrade enables firms to dispose of declining products. Which is particularly important given the very rapid pace of technological advance. 37 percent of the companies surveyed reported this benefits.

(vi) Some countries have also made the countertrade a means to increase sales through disguised undercutting of the cartel prices (for example the oil price fixed by the OPEC).

(vii) Having realised the potential of increasing the business by engaging in countertrade. many international trading corporations became active in the countertrade. Their trading with many countries enabled them even to take up such complex transactions as the case of Daimler Bena cited earlier.

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It may be noted here that, after the deintegration of the erstwhile Soviet Union, when the Government of Inida has been finding it difficult to establish twoway trade flows, the Pepsi Foods Private Ltd., made an attractive offer to the Government to enter into countertrade deals with individual enterprises in the Commonwealth of Independent States to import the much needed oil, non-serious metals, fertilizers and newsprint.

Draw backs

Although countertrade has several justification, particularly in the short run, it suffers from a number of disadvantages and problems, particularly in the long run.

Firstly, countertrade encourages bilateralism at the expense of multilateralism.

Secondly, it adversely affects export market development.

Thirdly, although several developing countries regard countertrade is an easy route to export, they often stand to lose in terms of price. For instance Poland bought Libyan of at a discount and sold it at a higher price on the Rotterdam spot market.

Fourthly, it very adversely affects competition.

ENTRY STRATEGIES OF INDIAN FIRMS

India's economic integration with the rest of the world was very limited because of the restrictive economic policies followed until 1991. Indian firms confined themselves, by and large, to the home market. Foreign investment by Indian firms was very insignificant.

With the new economic policy ushered in 1991, there has, however, been a change. Gobalisation has in fact become a buzz word with Indian

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firms now and many are expanding their overseas business by different strategies. Indian inudstry can move towards globalisation by different strategies such as developing exports foreign investments including joint ventures and acquisitions, strategic alliance, licensing and franchising, etc.

Exporting

Exporting is, by far, the most important entry route employed by Inidan firms. Because of the inward looking economic policy pursued until 1991, the progress made on the export front was not, in general, something commendable. With the economic, liberalisation, an environment for globalisation of Indian exports, however, is slowly emerging. In a truly globalised environment, the exports will also be very much global the sourcing of finance, materials and managerial inputs will be global, based on purely business considerations.

Several Indian Companies have entered foreign markets targeting their exports at the ethnic population, West Asia, with a large expertiate Indian population, naturally is the first target in many of these cases.

The Mumbai based American Dry Fruits (ADF) which began selling a range of packaged foods like chutreys, spices, canned vegetables, ready-to eat dals etc. Under different brand names later moved to other countreis with large Indian population.

As foreign firms, generally, have neither the expertise nor interest in the ethnic products. Indian firms do not have to face competition from them, making market entry and growth fairly easy.

A firm which makes the ethnic segment of the market its entry point may, in due course, after gainining experience in doing business and establishing a foothold in the foreign market, take up marketing of non-ethnic products and to non-ethnic consumers.

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Food products are not the only category being ttargetted at ethnic population. Raymonds and Birla VXI, for example, have a number of showrooms in West Asia top sell their range of textile items. Show Wallace launched a beer brand called Lal Toolan in UK though Show Wallace Overseas; the target consumers of this brand sold at the up market Indian restaurants are Indians.

India has potential for significantly increasing the exports of many products if appropriate measures are taken. As a matter of fact, in case of number of products several other developing countries which started their exports later than India have gone much ahead of India while India's progress has been show. With the right policy and procedural reforms and institutitonal support, with technological upgradation and modernisation and enlargement of production facilities, with thrust on quality and value added products, with improvements in infrastructural facilities and with right marketing strategy great strides could be made in the export of a number of products. Broadly there are three strategies to increase the export earning, viz.,

(i) Increase the average unit value realisation

(ii) Increase the quantity of exports

(iii) Export new products

One of the most important considerations in exports should be to achive maximum unit value realisation. Value added exports is a much needed graduation for India to enhance the foreign exchange earnings. A very disquieting fact is that India's agricultural exports still are mostly commodity exports, i.e., they are exported mostly in bulk form and the progress achieved in value added exports is not anything significant.

Value added exports assume greater significance particularly in view of the stagenation or fall in the exportable surplus of several commodities-like pepper, candamon, tea, coffee etc.

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The major part of India's manufactured exports and uup in the low-price segments of the foreign markets. Quality up-gradation and marketing efforts are needed to reach the upper segments and to achieve enhanced value realisation. Technology imports or foreign collaborations are required for this in many cases.

In many cases, what comes in the way of increasing exports is the supply constraints. This is true of a number of manufactured products as well as agricultural commodities. Given the constrains for area expansion, increase in agricultural production should come mostly from increase in productivity which is very low and highly fragmented so that there are a large number of cases of Indian firms not being able to accept offers from abroad for purchase of large quantities of the products which are far beyond the capacity of these firms to supply.

One of the mportant ways to increase exports is to expand the export basket by adding new products and achieving substantial sales of them abroad. The share of non-traditional items in India's exports has increased very significantly. However, a lot of potential still remains untapped.

For identifying new products for exports there are two important courses (i) Explore the export opportunities for products currently produced in India, (ii) Identify products with good demand abroad which can be competitively produced and supplied by India.

An important export opportunity for India and other developing countries is provided by the vocation of certain industries or market segments by the developed country firms due to various reasons like environmental consideration, lack of competitiveness, declining industry attractiveness etc. For example, the developed countries are phasing out production of a wide range of chemicals due to increased expenditure on overheads and high labour costs.

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Given the capabilities and limitations of the Indian companies and the international environment, appropriate strategies should be formulated to market different products abroad.

Market niching is the right strategy for many Indian companies. Several Indian companies have indeed successfully used this strategy in the foreign markets.

In some cases a company can adopt the strategy of *straight extension*, i.e., extending the same products as marketed in the home country to the foreign markets. It is particularly relevant in respect of ther developing countries with similar market characteristics as that of India. A large number of the cases, however, demand quality upgradation, product modification of product development.

Foreign Investment

As pointed out in Chapter 1, it is simply not possible to maintain substantial market standing in an important area unless one has a physical presence as a producer. Otherwise, one will soon lose the 'feel' of the market. Besides the advantage of getting a feel of the market, off shore investments are encouraged by such factors as cost advantage, trade barriers etc. The demand for 'local content' is also satisfied by production in the respective countries. In many cases exporting is the beginning stage of international business which in, due course, will be replaced by production in the foreign market.

Foreign investment by Indian companies has so far been very limited. The attractiveness of the domestic market, lack of global orientation, government regulations etc. have been responsible for this.

By the beginning of 1995, a total of 300 wholly owned subsidiaries (58 in operation and 242 under implementation) were established by Indian companies. The operational ventures were dispersed in 40 countries.

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With the economic liberalisation and growing global orientation, many Indian companies are setting up manufacturing/assembling/trading bases abroad, either wholly or in partnership with foreign firms. These would help these companies to increase their international business. Indian companies have also been making huge ivnestments abroad on acquisitions.

The leader in establishing manufacturing bases abroad is the Aditya Birla group. Aditya Birla, whom the Forbes called India's only international businessman, made this strategic move as early as 1970s. The group's drive to set up business overseas is the "we want a predominance in the industries that we enter. The objective is to be a low-cost, high-quality and global standard player"[29].

A number of large and small Indian companies are ivesting aborad as part of their globalisation strategy. Several of these overseas investments aim not only at expansion of production base and business abroad but also at consolidation of the domestic business. The Ballarpur Industries of the Thapars are setting up a giant paper mill in Indonesia at an estimated cost of Rs.1800 crores. A plantation put up on 2,50,000 hectares of land will feed the fmill. Any surplus pulp may be exported to India to feed Thapar Paper mills here. The significance of it should be viewed against the possible wood and pulp shortage in future in India. The Ceat expects that when the tariff barriers between the SAARC countries come down, part of the South Indian market could be served by its tyre plant in Sri Lanka.

Indian companies are also establishing production facilities abroad to get an easy entry into the regional trade blocs. For example, a base in Mexico opens the doors to the NAFTA region for the Aravind Mills. Similarly Cheminor drugs, one of the Dr. Reddy's Labs Group of Companies, has set up a subsidiary in New Jersey.

Mergers and Acquisitions

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Mergers and Acquisitions (M & As) are very important market entry as well as growth strategy. M & As have certain advantages. It may be used to acquire new technology. M & As would have the effect of eliminating/ reducing competition. One great advantage of M & As in some cases is that it provides instant access to markets and distribution network. As one of the most difficult areas in international marketing is the distribution, this is sometimes the most important objective of M & As. For example, Vijay Mallya's U.B. group acquired a small British company. Wiltshire Brewery. The attraction of Wiltshire for U.B. was that the former offered a readymade chain of 300 pubs throughout Britain which could be used for the marketing of U.B.'s brands of beer like kingfisher, kalyani etc. The U.B. group has gone for such acquisitions in U.S.A. and S. Africa. A number of other Indian companies have also resorted to acquisition of companies abroad to gain a foothold in the foreign market and to increase the overseas business. Apart from the big players, a host of lesser known companies have bought out cash strapped plants in Europe, USA etc.

Joint Ventures

Joint venturing is a very important foreign market entry and growth strategy in the context of the deficiencies of the Indian firms in resources, technology and marketing. This indeed a is very important strategy employed by Indian firms. It is an important route taken by pharmaceutical; firms like Ranbaxy, Core, Lupin, Reddy's etc.

In several cases joint ventures, as in the case of foreign subsidiaries, help Indian firms to stabilise and consolidate their domestic business, besides the expansion of the foreign business. Essar Gujarat's joint ventures in countries like Indonesia and Bangladesh to manufacture cold rolled (CR) steel have resulted from a strategy to create an assured market for its hot rolled (HR) coil mother plant at Hazaria (HR coils are inputs for manufacturing CR steel products)

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The Essel Packaging has taken the joint venture route to expand its business abroad. The joint ventures abroad convert the laminates into tubes to be marketed in foreign markets. The centralisation of the laminates production in India enables the company to reap enormous economics of scale. The high cost of transportation of tubes over laminates makes the conversion of laminates into tubes in the foreign markets more profitable. Further, the establishment of tube production facilities in foreign markets helps to pre-empt competition.

The liberalisation of policy towards foreign investment by Indian firms along with the new economic environment seems to have given joint ventures a boost. At the begining of 1995 although there were 177 joint ventures (with a total equity of Rs.179 crores), in operation, there were 347 (total investment Rs.1400 crores) under implementation. Not only the number of joint ventures is increasing but also the number of countreis and industries in the map of Indian joint ventures is expanding. Further liberalisation, like enhancement of the investment limit of automatic clearance, is needed for a fast expansion of the Indian investment abroad.

Strategic Alliance

Strategic alliance provides enormous scope for the Indian business to enter/expand the international business. This is particularly important for technology acquisition and overseas marketing. Alliance is indieed an important international marketing strategy employed by several Indian firms.

Licensing and Franchising

Licensing and franchising, which involve minimal commitment of resources and effort on the part of the international marketer, are easy ways of entering the international market.

Many Indian firms can use licensing or franchising for the overseas market; particularly the developing countries. For example, Ranbxy has licensing arrangement in countries like Indonesia and Jordan.

7.6 CONCLUSION

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The limitations of national markets, the diversity and unevenness of resource endowments of different nations, complexity of technological developments, differences in the levels of development and demand patterns, differences in production efficiencies and costs, technological revolution in communication and other fields etc. mandate globalisation.

The intent of globalisation is efficiency improvement and market optimisation taking advantage of the opportunities of the global environment. Therefore, in many cases, Indian companies have to globalise to survive and grow in the emerging competitive environment.

The restrictive economic policies of the past severely affected the competitiveness and growth of the Indian Industry in general. The new economic policy, albeit suffers from certain defects, is a welcome change.

If the Indian firms have the facility to obtain the latest technology in the world, to raise finance from the cheapest source and procure the materials from the best source in the world, they are on equal footing with the foreign firms in many respects. And if the Indian firms can muster some edge ever the foreign firms in respect of labour cost, productivity, product quality/features etc. that could be a competitive advantage.

MARKET ENTRY STRATEGIES:
i) Licensing/franchising
ii) Exporting
iii) Contract manufacturing
iv) Management contract
v) Turnkey contracts
vi) Fully owned manufacturing facilities
vii) Joint venturing
viii) Third country location
ix) Mergers and acquisitions
x) Strategic alliance
xi) Countertrade

In many cases, size is an important factor which influences the competitive power. The economic liberalisation by pruning down the list of industries reserved for the public sector, delicensing and amending the MRTP Act has provided an environment which enables companies to grow fast, both internally and externally. The growth plans of many Indian companies indicate a great leap forward. The turnover of Reliance is projected to more than double from Rs.5300 crores in a short span of 3 to 4 years. The Modern Group's turnover has more than doubled from Rs.525 crores in 1994-95 in two years time, a fifth of it being exports. The Krloskar group which had a turnover of about Rs.1300 crores in 1995 is targeting Rs.7000

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crores by the year 2000. The Rs.6000 crores ITC group, is positioning itself to become a prominent Indian MNC by the turn of the centruy. Out of the turnover of Rs.4280 crores of its flagship company in 1993-94, Rs.822 crores were from exports. The Arvind Mills, Whose projected turnover is 1996-97 was about Rs. 1100 crores, is planning to more than tripleit to $ 1 billion by the turn of the century. The increase in the size could keep the companies on a strong footing to make futher dent into both the domestic and foreign markets. In short, the India industry is where they can make jumbs compared to the past situation of limping forward.

Several India companies are already leading players. The Ispat group of the Mittals which has units in countries like the U.S., Canada, Indonesia, Trinidad and Tobago is the largest Sponge iron producer in the world. The Aditya Birla group is the world's largest player in viscose fibre and carbon black and also the largest refiner of palm oil. The Essel packaging which is already the world's second largest integrated producer of laminated tubes is aiming to climb up to the number one poision. Arvind Mills, one of the world's largest producer of denim cloth, is making further thrusts. When its ongoing projects are fully implemented. Reliance Industries would be the second largest texturiser in the world to be fully integrated from naphtha to fabrics. India is also a major player in two/wheelers and bicycles. India is the largest producer of several agricultural commodities.

The liberalisation in India and in other countries pose a real challenge to the Indian business to prove its mettle.

EXPORT HOUSES AND TRADING HOUSES

From the beginning of the Second Five-Year Plan, the foreign exchange problem began to assume serious proportions, and the Government began to realise the need for vigorous export promotion. It was very clear that concentrated efforts should be made for the promotion of the export of non-traditional items. It was also realised that unless positive steps were taken to build up a number of merchant houses, concentrating almost exclusively

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on exports and capable of under taking trade on a sustained basis, it would be impossible to compete successfully against the highly experienced and resourceful trading houses of other countries. The importance of promoting merchant houses was further underlined by the need for providing channels for the export of the products of the small scale sector.

The scheme of export house has been modified a number of times.

Merchant and manufacturer exporters EOUs and units located in EPZ/EHTP/ STP may be recognised as Export Houses, Trading Houses, Star Trading Houses and Superstar Trading House is either FOB / NFE value of export goods and services during the three proceeding years or the preceding licensing year, at the option of the exporter as given in Table 7.1.

For the purpose of recognition, weightage is given to certain categories of exports as indicated below provided such exports are made in freely convertible currency.

Double weightage on FOB or NFE on the export of

(i) Products manufactured by small scale/tiny/cottage units respectively.

(ii) Fruits and Vegetables, floriculture and horticulture produce / products.

(iii) Goods manufactured in North Eastern States.

Double weightage on exports to specified developing countries.

Double weightage on FOB value and Triple weightage on NFE on exports of products manufactured by handlooms and handicraft sector (including handloom silk), hand-knotted carpets, carpets made of silk.

Export House / Trading House / Star Tradeing Houses / Superstar Trading Houses are entitled to special import licences as per the criteria laid down, related to the export/net foreign exchange earnings. The amount of entitlement is lowest for Export House (6% on foreign exchange earnings. The amount of entitlement is lowest for Export House (6% on FOB basis and 7.5% on NFB basis) and highest for Superstar Trading House (12% and 15%).

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TABLE 7.1

Criteria For Recognition of Export Houses and Trading Houses

FOB Criterion NFE Criterion

Category	Average FOB value of exports made during the Proceeding three licensing years, iin Rupees	FOB value of exports made during the preceeding licensing year, in Rupees	Average NEF value of exports made during the preceeding three licensing years, in Rupees	NFE value of exports made during the preceding licensing year, in rupees
Export Houses	20 Crores	30 Crores	16 Crores	24 Crores
Trading Houses	100 Crores	150 Crores	80 Crores	120 Crores
Star Trading Houses	500 Crores	750 Crores	400 Crores	600 Crores
Superstar Trading Houses	1500 Crores	2250 Crores	1200 Crores	1800 Crores

AN EVALUATION

The success of export promotion measures should be judged by the growth of exports and the dynamism of the export sector.

No doubt, India's total exports have been growing and the exports sector has achieved some diversification and sophistication. However, the achievements have been as noted earlier, far below the requirements and

potentials and have been very poor in comparison with those of several developing countries. Thus, exports developments measures in India have not been successful in producing the needed results. The infrastructure for international marketing is not efficient enough.

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An effective export promotion should compensate for the disadvantages of the national exporters and should make the export business profitable enough to lure entrepreneurs to this sector and achieve the ultimate objective to boosting the exports.

The general feeling is that the export promotion regime in India has not succeeded in achieving these objective.

CONCLUSION:
1. Export houses and trading houses,
2. An Evaluation

It has also been pointed out that one of the drawbacks of the exports incentives regime in India is that it is largely transparent in character.

"While foreign buyers have sharp eyes for them, these constitute an eye sore for the governments particularly of the industrialised importing countries. The importer try to grab these incentives almost in their entirety on the pretext to growing competition. Thus depriving the Indian exporters of the benefits of the promotional measures. In fact these tend to create an unsaitable urge for more and more incentives in extent and magnitude. On the other hand, the governments of the developed countries viewing these as subsidies invoke the provisions of the anti-dumping and countervailing duty laws. The effectiveness and purposiveness of incentives thus lie their non-transparent character. This could be possible only be devising a policy framework with inherent and inbuilt, albeit latent, promotional incentives"2.

A major factor necessitating large incentives is the structural weakness and high cost of the Indian economy. It is, therefore, necessary to remove these handicaps to reduce the needs for the exogenous incentives. Further, the institution inadequacies and procedural complexities and delays need to be urgently attended to. Absence/lack of dynamism and innovativeness in

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True or False:

1. The economic liberalisation in India has removed to a large extent, the political barrier to entry. (true/false)
2. The indirect expect involves home based independent middlemen who constibute the domeatic subsystem. (true/false)
3. The indirect method is not more popular with firms which are just beginning their exporting activities. (true/false)
4. Direct exporting may also be carried out by establishing conacts with foreign based distributors or agents. (true/false)
5. Large rebailers may buy directly from the exporters. (true/false)

Answer:
1. True 2. True
3. False 4. True
5. True

policies, procedures, product development and marketing continue to hamper India's export development.

7.7 KEY TERMS

* Licensing
* Countrtrade
* Logistics
* Acquisitions

7.8 SUMMARY

International distribution, international channel system, internal distribution, marketing entry system, exporting, conclusion are dealt in with details in this chapter.

7.9 MODEL QUESTIONS

Section - A

1. Explain International Channel System.
2. Describe the Marketing Environment and Internal Distribution.
3. Explain Market Entry Strategies.
4. What are the points about Exporting?
5. Explain conclusion about on Internation Distribution.

Section - B

1. What are the types of Foreign Intermediaries?
2. Give details on International Logistics.
3. Explain Licensing and Franchising.
4. Explain Management Contracting.

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LESSON - 8

INDIA'S FOREIGN AFFAIRS

STRUCTURE

8.0 Introduction
8.1 Unit Objectives
8.2 Foreign Trade Control and exim Policy
8.3 The Foreign Trade Regulation Act 1992
8.4 Export-Import Policy
8.5 Satient features
8.6 Conclusion
8.7 WTO and Trade Liberalisation
8.8 Trims
8.9 Trips
8.10 An evaluation of the Uroguay round
8.11 Key Terms
8.12 Summary
8.13 Model Questions

8.0 INTRODUCTION

India's foreign policy for most of 2002 remained narrowly focused, lacking in vision, and consequents adrift. There was an obsessive preoccupation with Pakistan and in turn the United States. There was marginal progress in relations with Russia and China. Ties with Japan were sought to be resurrected with Prime Minister Atal Bihari Vajpayee's visit in December 2002 eliminating the bitterness following Tokyo's reaction to India's conduct of nuclear rests in the summer of 1998. South, Southeast, and central Asia began to receive attention, the last seeing some substantial measures by India to step up and the world continued on a directionless path.

There were two dramatic developments during the year. Both these were upshorts of the defeat of the obscurantise Taliban regime in Afghanistan and have the potential for long-term impact. The first was India's historic

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return to the friendly fields of Central Asia, which has ensured closer relations with the countries of the region; most of these countries are former autonomous republics of the rest while Soviet Union.

Afghanistan has, obviously received the primacy of attention, with some behind the scene work starting to yield results. The rout of the Taliban by the start of the year cleared the way for India's return to Kabul, which in the 1980s had seen a strong Indian presence. Afghan leader Hamid Karzai's highly successful trip to New Delhi, undertaken before his installation as president by the Shura/Loya Jirga, the "grand" council, capped a series of visits by top officials, including those by Foreign Minister Abdullah Abdullah, Defence Minister Fahim Mohammed and Interior Minister Yunus Qanooni.

Despite compulsions and reservations. Karzai's visit gave a big boost to bilateral relations between India and Afghanistan. New Delhi, which had given full moral support to the Northern Alliance led by the now assassinated leader Ahmad Shah Masood rolled out the red carper for Karzai. In additiona to the sizeable economic and humanitarian assistance already extended to the new administration in Kabul, India announced, during Karzai's visit a grant of S 10 million for Afghanistan's immediate use. The relationship between the two countries has taken a giant leap forward since the installation of the interim administration. This is testimony to the age old ties between the two countries.

India, during the year, also hosted Kazakh an Tajik leaders. This was largely seen as making up for the failure in the immediate post-Sovier era to build on the centuries - old ties that have existed with the peoples of the region. Long-term prospects for strategic cooperation, including in the areas of energy and security remain bright, with the declaration of India's readiness to transfer needed technology to the former Soviet republics. This was one of the success stories for the Government in 2002.

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The other significant development on the bilateral front was the strengthening of ties with Israel. The "Compaign against terrorism" proved an irresistible binding factor as the two countries now sea a convergence of national interest. The new wider and deeper relationship will see India and Israel cooperate on defence matters and intelligence sharing. The year witnessed a number of reciprocal visits by the dignitaries of the two countries and the establishment of a structural arrangement for periodic discussions on strategic matters. The prospect of Isreal selling the Phaleon airborne warning systems to India also brightened during the year. The United States, which had opposed the sale till recently and had stalled supplies to China, might want to delay the delivery but not block it. This foreign of new Indi-Isreal connections can have lasting consequences for the region, and strategically is perhaps the most critical feature of the year. The absence of spotlight on the activity in Central Asia as well as Isreal seems deliberate.

Another development during the year, not as vital as the above but which also went unnoticed, related to a distant continent. It was the signing of a historic agreement between India and Brazil for cooperation in space technology. The signing, by K.Kasturirangan and Mucio Roberro Dias in Bangalore on March 1 was totally ignored. It must be recalled that in the mind 1990s, the absence of a positive response from the Indian space science establishment had Brazil look towards China for help. It was, therefore, heartening to see the begining of a perspective cooperation in space technology between two leaders of the developing world.

However, all these developments were overshadowed by the Government's obsession with Pakistan. Foreign Minister Jaswant Singh kept the foreign policy pegged to India's western neighbour to a near-total neglect of relations with other countries around the world. The change of leadership midway through the year, for reasons unrelated to policy or strategy, has seen little change in substance. However, there has been a distinct change in style. Jashwant Singh, who succeeded Jaswant Singh in a Cabinet reshuffle in July, has displayed pragmatism and a concern for the near-abroad that

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appears to be yielding fruit. The needed course correction has taken Sinha to all the neighbouring capitals, with the exception, no doubt, of Islamabad. It has been a welcome return to the near abroad, more particularly to regional multilateralism as represented by the South Asian Association for Regional Cooperation (SAARC).

Sinhas first visit was to the Sri Lankan capital of Colombo, where the United National Party government led by Prime Minister Ranil Wickrama Singhe has initiated a bold but contentious peace process in tandem with the Liberation Tigers of Tamil Eelam. Sinha's visit amounted to a clear endorsement of and support for the process, which seeks to end a murderous civil war in the island republic that has lasted four decades. Colombo, has been keeping New Delhi briefed on its every move to court Prabhakaran.

Sinha's visits to Dhaka - where a change of government has reintroduced an element of hostility towards India and its interests - and to Kathmandu have helped boost bilateral relations, which had remained in a state of neglect much before the September 11 strikes. Prime Minister Vajpayee's visit to Male, capital of the Maldives, in mid-September confirms the reversion to regional bilateralism best symbolized by the SAARC.

Vajpayee's once-postponed visit to Japan signalled the end of a cold relationship between the two nations. Vajpayee and his Japanese host, Prime Minister Junichiro Kolzumi, were appearently determined on side stepping their differences on nuclear issues and declared their determination to take bilateral relations to a new level. A joint declaration issued at the end of Vajpayee's visit (in December 2001) said the two countries would continue a comprehensive dialogue covering all security-related issues and forge a new trust at the political level. It spoke of India and Japan working toegether for stability and prosperity in Asia, regularly exchanging views on al security-related matters, military-to- military contacts, and more importantly, work for the total elimination of terrorism.

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The first months of the year witnessed, in the wake of the September 11 catastrophic attacks and the subcontinent's response to them, a steady stream of world leaders to New Delhi. Their visits had one sole objective; the prevention of a military conflict between India and Pakistan. There was no out break of histilities between the two neighbours, but there was no let up in the war of words either as the year drew to a close.

8.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* Foreign trade control and exim policy
* The foreign trade regulation act 1992
* The WTO and trade liberalisation

8.2 FOREIGN TRADE CONTROL AND EXIM POLICY

Government of India have taken a number of measures for the development of foreign trade in accordance with the national interests. Because of the persistent trade deficit and foreign exchange problem, export promotion and import control have been the two most important features of India's trade policy.

CONTROL OF FOREIGN TRADE

Control of foreign trade in India dates back to the early years of the Second World War. Import Control was introduced in 1940 as a war time measure under the Defence of India Rules with the primary objective of conserving the foreign exchange resources and restricting physical imports so as to reduce the pressure on the limited available shipping space. Initially, the import of only 68 commodities, mainly consumer goods, were brought under control. Subsequently, with the increasing pressure on the foreign exchange resources, import control was extended to other commodities as well.

After the end of the war, the Defence of India Rules lapsed and hence in September, 1946, the Emergency Provisions (Continuance) Ordinance,

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1946, was promulgated to continue the Import trade control. This was ultimately replaced by the Imports and Exports (Control) Act, 1947, which came into force with effect from 25th March, 1947. This Act gave the Government enormous powers of control over the foreign trade of India. The imports and exports have been controlled by the Government under the Imports (Control) Order and Exports (Control) Order issued under this act. The Act has been recently replaced by the Foreign Trade (Development and Regulations) Act.

Besides this Act, there are some laws which control the trade in certain items. For instance, the export of antiquities is regulated under the Antiquities and Art Treasures Act, 1972; export of coffee is regulated by the Coffee Board under the Indian Coffee Act, 1942; export of tea is regulated under the Tea Act 1953, etc. The export and import of gold, currency notes, bank notes and coins have been controlled by the Reserve Bank of India under the Foreign Exchange Regulation Act (FERA), 1973.

The major concern of Government in the past was restriction of import with a view to controlling the trade deficit and protection of domestic industries against foreign competition. Imports were, therefore, very much restricted by prohibition of imports of many items, import licensing, very high import duties and foreign exchanges restrictions. The foreign trade policy was characterised by the overtone of negativism.

In tune with the general economic liberalization ushered in India in 1991, the Exim policy and the regulatory mood and mode have undergone a change. The difference between the past and present attitudes is reflected in the change in the title of the law-from Imports and Exports (Control) Act to Foreign Trade (Development and Regulation) Act was to prohibit and control imports and exports; the objective of present Act is to provide for the development and regulation of foreign trade by facilitating imports and augmenting exports.

8.3 THE FOREIGN TRADE DEVELOPMENT AND REGULATION ACT, 1992

This Act which replaced the (Imports and Exports Control) Act, 1947, came into force on 19th June 1992.

No export or import shall be made by any person except in accordance with the provisions of this Act, the orders and rules made under this Act and the export and import policy.

Objective

The objective of the Act is to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India and for matters connected therewith or incidental thereto.

Main Provisions

The man provisions of the FTDR Act are the following:

(i) Development and Regulation: The FTDRA empowers the Central Government to make provision for the development and regulation of foreign trade by facilitating imports and increasing exports.

(ii) Prohibition and Restriction: The Act also empowers the Central Government to made provision for prohibiting, restricting or otherwise regulating the Import or export of goods as and when required. All goods which are so regulated under this sub-section shall be deemed to be goods the import or export of which has been prohibited under section 11 of the Customs Act, 1962, and all the provisions of them. Act shal have effect accordingly.

It may noted that it is according to this sub-clause that the Government has provided for negative lists of exports and imports in the Exim Policy.

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(iii) Exim Policy: The Act lays down that the Central Government may, from time to time, formulate and announce the export and import policy and may also amend that policy.

(iv) Director General of Foreign Trade: The Act provides for the appointment by the Central Government of a Director General of Foreign Trade for the purpose of this Act. The DGFT shall advise the Central Government, in the formulation of the export and import policy and shall be responsible for carrying out that policy. [The corresponding authority under the Imports and Exports (Control Act), 1947 was called the Chief Controller of Imports and Exports (CCIE)].

(v) Importer Exporter Code Number: The Act lays down that no person shall make any import or export except under an Importer-Exporter Code (IEC) Numbers granted by the DGFT or the Officer authorised by him in this behalf.

The Director General is empowered to suspend or cancel the Importer Exporter Code Number granted to any person if there is valid reason to do so, like contravention of law relating to Central excise or customs or foreign exchange or having conducted import/export in a manner gravely prejudicial to the trade relations of India with any foreign country or in a way detrimental to the interests of the country.

(vi) Issue and Suspension/Cancellation of Licence: The Director General any other Officer authorised under this Act is empowered to suspend or cancel a licence issued for export or import of goods in accordance with this Act for good and sufficient reasons, after giving the licence holder a reasonable opportunity of being heard.

(vii) Search inspection and Seizure: Where any contravention of any condition of the licence or letter of authority under which any goods are imported is suspected or made, any person authorised by the Central

Government may search, inspect and seize such goods, documents, things and conveyances subject to such requirements and conditions as may be prescribed.

(viii) Penalty for Contravention: Where any person makes or abets or attempts to make any export or import in contravention of any provisions of this Act or any rules or orders made this Act or the Exim Policy, he shall be liable to a penalty not exceeding one thousand rupees or five times the value of the goods involved, whichever is more.

8.4 EXPORT-IMPORT POLICY

The Export-Import Policy announced on March 31st, 1992, gave the Exim Policy, for the first time, validity for a period of five years and it coincided with the Eightn Plan period (1992-97). The current Export-Import Policy (1997-2002) which seeks to consolidate the gains of the previous policy and to further carry forward the process of liberalisation, is to coincide with the 9th Plan.

Objectives

The principal objectives of the Exim Policy 1997-2002 are following:

1. To accelerate the country's transition to an internationally oriented vibrant economy with a view to derive maximum benefit from the expanding global market opportunities.
2. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production.
3. To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and encourage the attainment of internationally accepted standards of quality.
4. To provide consumers with good quality products at reasonable prices.

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THE FOREIGN TRADE DEVELOPMENT AND REGULATION ACT, 1992:

i) Development and Regulation,
ii) Prohibition and Restriction,
iii) Exim Policy,
iv) Director General of Foreign Trade,
v) Importer Exporter Code Number,
vi) Issue and Suspension/ Cancellation of Licence,
vii) Search inspection and Seizure,
viii) Penalty for Contravention

8.5 SALIENT FEATURES

The salient features of the Exim policy are the following:

(i) Liberalisation

A very important feature of the Exim policy since 1992 is freedom. Licensing, quantitative restrictions and other regulatory and discretionary controls have been substantially eliminated. All goods, except those coming under the negative list, may be freely imported and exported.

(ii) The Negative List

The negative list consists of goods the import or export of which is:

(i) Prohibited;

(ii) Restricted through licensing or otherwise; or

(iii) Canalised.

The prohibited goods shall not be imported or exported. As per the Exim policy effective from 1st April, 1997 there are three prohibited items of import (tallow, animal rennet, wild animals including their parts) and there are 10 prohibited items of exports(Example: wild animals including their parts, exotic birds, specified plants, human skeletons, tallow, sandalwood, red sanders wood)

Any goods, the export or import of which is restriced through licensing may be exported only in accordance with a licence issued in this behalf. A license may include such terms and conditions as may be specified by the licensing authority which may include; (i) the quantity, description and value of the goods; (ii) actual user condition, if any; (iii) export obligation if any; (iv) the country of origin and destination of the goods.

Restricted items of imports include consumer goods like electronic goods, telecommunications equipment, watches, concentrates of alcoholic beverages, saffron, and cotton, woolen, silk, man-made and blended fabrics; certain precious, semi-precious and other stones like rough diamonds, marbles

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etc, certain safety, security and related items like fire arms, explosives, ammunition, currency paper etc., certain seeds, plants and animals; certain insecticides and pesticides; certain drugs and pharmaceuticals; certain chemicals and allied items etc.

Restricted items of exports include cattle; camel; chemical fertilisers; fodder; hides and skins; paddy; seeds and planting materials; certain vegetable oil etc.

The third category of goods in the negative list are those goods the import or export of which is canalised. Canalisation means that the import or export of the goods concerned may be done only by the designated public sector agency (like the STC., MMTC or other organisations pertaining to particular products such as Indian Oil Corporation for petroleum products, NDDB for certain dairy products and NAFED for certain agricultural products).

The number of canalised items has been drastically reduced and canalisation is now confined to certain petroleum products, fertilizers, edible oils, cereals and a few other items.

Although trading in canalised goods may be done normally by the designated agencies only, the Director General of Foreign Trade (DGFT) may grant licence to others to import or export any canalised item.

The restrictions placed on the goods included in the negative lists are on grounds of public policy. The import of consumer goods and durables will continue to be under restraint. These restrictions are considered necessary for economic reasons as well as on grounds of safety, security, environment and the like.

The Policy of the government is to keep the negative lists as small as possible under given circumstances and these lists would be pruned from time -to time as and when exports gather momentum and the economy gains strength.

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Export Promotion Imports

The Exim policy has several schemes of imports for the exporters.

RELATED MEASURES

The new Exim policy is but a part of the new economic policy of India. Besides the Exim Policy, there are several other measures having a bearing on the trade flow. To get a better picture, the Exim policy should be viewed in conjecture with these measures. Important measures in this category include the following:

(i) Devaluation

The Rupee was devalued in July 1991 to make the exchange rate more realistic with a view to encouraging exports and discouraging imports.

(ii) Rupee Convertibility

The 1992-93 Budget introduced partial convertibility of the Rupee under the system known as Liberalised Exchange Rate Management System (LERMS). Under this, 60 percent of the foreign exchange earnings under the current account could be converted at the free market rate quoted by authorised dealers. This was both a trade promotion and an economic liberalisation measure.

The 1993-94 Budget introduced the full convertibility of the Rupee on the trade account.

Abolition of CCS and Exim Scrip

The Cash Compensatory Support (CCS) as subsidy which the exporters of select items enjoyed. Export subsides were subject to criticisms and retaliations abroad and it was abig burden on the exchequer. The CCS was abolished following the devaluation in 1991. As the devaluation increased the export profitability, it was felt that exporters would not be adversely affected this measure.

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The Exim Scrip (which was a modification of the earlier Replenishment (Rep) licence scheme) was abolished following the introduction of the partial convertibility. The Exim Scrip which was an import licence (which was freely tradable) for exporters was an incentive scheme because of the premium at which they could be sold in the open market by the exporters.

Import Duty Reductions

Over the last few years there have been very significant reductions in the import duties leading to increasing exposure of the Indian economy to foreign competition.

Liberalisation of Foreign Investment

Another significant measures was the liberalisation of the foreign investment policy. This along with other economic policy liberalisations have been encouraging large flow of foreign investment.

An Evaluation of the Exim Policy

The Exim policy and associated measures of economic reforms or liberalisation have far reaching implications.

(i) The Indian economy has been exposed to more foreign competition. The regime of high protection is gradually vanishing The tariff cuts and several other liberalisation measures are likely to continue in future. This means that the Indian firms should become competitive if they should survive. They have to pay due attention to cost and price, quality, delivery schedules, after sales service etc. In fact, a buyer's marketing is emerging in several industries which in the past were sellers' markets.

(ii) Another important implication of the liberalisation is that now Indian firms can obtain their raw materials and the like more competitively, including from abroad. This would help them to control costs and improve quality.

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(iii) The liberalisation of capital goods imports will help reduce project and production costs and may encourage technological upgradation.

(iv) The increasing competition from aborad as well as from within isprovoking many Indian firms to given an added thrust to exports. Some companies even view exports as a counter-competitive strategy.

(v) Because of the imports which they can make with their foreign exchange earnings several companies pay special attention to exports.

(vi) A very important implication of the exim policy is its intention to encourage the globalisation of India's foreign trade. One important objective of the current policy is to establish a framework for the globalisation of India's foreign trade. This has been given support by the fourth objective "to augment India's exports by facilitating access top raw materials, intermediates, components, consumables and capital goods from the international market". Indeed, facilitation of global sourcing is a perquisite for globalisation of exports, for increasing the competitiveness of the exports and for globalisation of the business.

(vii) In the past, India followed an indiscriminate import substitution which was proved up by heavy protection by import liberalisation is an open declaration that undue protection will not be granted any more. The shift to a pragmatic policy is indicated by the fifth objective of the Exim policy - "to promote efficient and internationally competitive import substitution and self-reliance under a deregulated framework for foreign trade".

(viii) The progressive decanalisation implies more scope and freedom for private enterprise. The decanalisation seriously affects the business of state organisation like the State Trading Corporation of India (STC) and Minerals and Metals Trading Corporation of India. These corporations need to redefine the scope of their business and reorient their strategies for success in future. Indeed they have been doing that.

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(ix) A commendable aspect of the current Exim policy is the importance given to elimination or minimisation of quantitative, licensing and other discretionary controls. However, we are yet to go a long way to procedural simplification.

(x) A drastic and welcome change in the attitude of the Government is reflected in the statement of objective of the new law, the Foreign Trade (Development and Regulation) Act, 1992, which has replaced the imports and Exports (Control) Act, 1947. The objective of this Act is to provide for the development and regulation of foreign trade by facilitating imports into and augmenting exports from India and for matters connected there with or incidental thereto. Contrast this with the objective of the 1947 Act; to prohibit or control imports and exports. The objective of the new Act reflects a positive and dynamic attitude in contrast to the negative attitude of the old Act. However, the burcancracy is yet to imbibe the spirit of the new attitude which is laid down in the paper.

Policy Modifications

Although the Exim Policy has been made long-term (5 years), modifications have been made from time to time. Particularly significant have been the Annual Policy modifications. Important modifications include the following.

1. Import liberalisation: In April 1998, 340 items and in April 1999, 894 items were shifted to the Free List of Imports so that a large number of consumer goods and agricultural products are now easily importable. The Commerce Minister has pointed out that import liberalisations of the previous years have not resulted in any surge in the imports, as feared by some people, and that the latest liberalisations will also not cause any BOP problem.

   In April 2000, quantitative restrictions were lifted on 714 items. The remaining items would be freed from OR in the next year.

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2. It was decided to establish special economic zones and to convert the export processing zones into special economic zones.

3. A new chapter has been added in the Policy recognizing the importance export of services.

4. A number of measures aiming at cutting down the transaction costs for exports have been proposes.

5. It has been proposes to evolve a scheme to involve the State governments in export promotion.

6. The duty extitlement Pass Book Scheme has been modified.

7. The Export Promotion Capital Goods (EPCG) scheme has been further rationalised.

8. To facilitate easy and timely availability of raw materials to exporters, especially small-scale units, it was decided to allow setting up of private bonded warehouses to import, stock and sell even negative list items to holders of advance licences.

9. To facilitate bulk imports from India by large overseas buyers (like department stores abroad), it was decided to allow the setting up of private bonded warehouses for such exports. The supplies to these bonded warehouses against payment in foreign exchange through normal banking channels will be treated as exports.

10. Procedures have been simplified in several area and licensing functions have been extensively decentralised.

11. Advance licence will be issued all eligible exporters automatically on the basis of information furnished by them. Clubbing of advance licence will now be allowed without insisting upon same value if the export products carry more or less similar description and have the same input norms.

12. Special import licence has been allowed to ISO 9000 quality certification holders even for export of on-site consultancy services'.

13. In order to counter the effect of the unfair trade practice of dumping, the directorate general of antidumping and allied duties is strengthened with a view to speed up the disposal of cases as well as to institutionalise the system so that effective protection is provided to the domestic industry.

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8.6 CONCLUSION

In short, the Exim Policy since 1992 acknowledges that trade can flourish only in regims of substantial freedom. It also recognizes the need for reasonable stability of the policy, by making the duration of the 5 years.

The policy aims at simplification and transparency. It is, therefore, endeavoured to make the procedures simple and easy to administer.

The new policy is quite in line with the economic reforms introduced in India. Due recognition of the need to give the Indian business a global orientation is a very important feature of the policy. In fact, this figures first in the list of the objectives of the policy.

The procedural signification and minimisation of quantitative licensing and other discretionary controls addressed to by the new policy and measures which were long overdue. A new culture, however, is yet to assure in.

In a nutshell, the implication of the new policy is that survival of a fist will depend on its competitiveness in the globalising environment and the competitive firms will have plentiful opportunities. Indian firms will have gear up themselves to survive and to become successful in the emerging borderless world.

Special Report

India and the WTO: the Cancun collapse

The fifth ministerial meeting of the World Trade Organisation, at Cancun, Mexico between September 10 and 14, 2003, marked she half-way mark in the original schedule of the Doha round of trade negotiations. For India, the

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stakes were high at the Cancun meeting and collapse of the conference without any agreement vindicated the Indian position on the "Singapore" issues and gave the country some breathing space in agriculture. What will eventually happen to the Doha round and, indeed to the WTO itself will be known only during the course of 2004.

The Doha round of negotiations was launched in Doha, Qutaz, in 2001 with a huge agenda of trade liberalisation, which rivalled that of the controversial Uruguay Round (1986-93) of the General Agreement on Tariffs and Trade, the organisation that gave birth to the WTO. On the agenda were nearly two dozen trade and non-trade issues, the more important of which were liberalisation of trade in agriculture, non agricultural industrial) market access, services and the "new" or "Singapore" issues of investment, competition policies, trade facilitation (customs procedures) and transparency in Government procurement. The new issues were first brought into the WTO at the 1996 ministerial in Singapore, hence the term for these subjects on the WTO agenda. Areas of interest to developing countries included the "implementation concerns", the package of demands seeking modification of the Uruguay round, and proposals seeking as concretize WTO provisions for Special and Differential treatment.

When the Doha round was launched, the schedule visualized the completing of negotiations in a little over three years, by January 2005, which was an extremely optimistic time - frame considering how long it took to complete talks on the Uruguay round Cancun was to be a mid-term review of the Doha round. With talks on the Doha round during 2002 and the first half of 2003 yielding few tangible results, it became apparent that much was being invested in the Cancun meeting to take the negotiations forward. Deadlines for tentative agreemtns in the crucial areas of agriculture and industrial tariffs had not been not met in early 2003. Gaps could also not be narrowed in the four contentious Singapore issues. The Cancun meeting according to the decision at Doha, was to take a decision "by explicit consensus on formally commencing talks on WTO treaties in these four areas.

Cancun was never expected to result in a formal WTO treaty in any area, it however, acquired a high profile because it was seen as possibly the last opportunity to break the deadlock in many areas in the Doha round. A breakthrough that resulted in broad agreement in agriculture, industry and Singapore issues would pave the way for completing the Doha round by January 2005.

Before 2001, India was not very enthusiastic about a new round of talks at the WTO. Once the Doha round was launched India had four sets of priorities. In agriculture, it sought protection of its farm sector from imports (it hoped to maintain high import duties) and reduction of domestic and export subsides by the developed countries. In industry, it aimed to bring down its tariffs at a moderate pace even as sought reduction of peak tariffs in the developed countries on its exports. On the Singapore issues, it sought first and foremost a continuation of the 'study process' in new WTP treaties in these new areas. In services, it hoped to negotiate an easing of barriers on the movement of skilled personnel ("movement of natural persons") for short-term assignments in the developed countries. India had other areas of interest as well in the Doha agenda, but agriculture, industry, the Singapore issues and the movement of natural persons were in main concerns.

The collapse at Cancun maintained the status quo in all areas. This meant that India would not have to immediately prepare for a lowering of import tariffs in agriculture. These would be no threat of imports flooding the market. India could also for the present reduce customs duties on industrial products at its own place. And it did not have to worry immediately about the WTO negotiating new treaties on any of the Singapore issues. But the Cancun failure also implied that a final agreement on the Doha round was almost definitely not going to be possible by early 2005. This means that India cannot look forward to a more rapid opening of markets for its exports - whether in agriculture, industry or even services.

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Many reasons have been offered for why the Cancun ministerial meeting did not result in a breakthrough in the Doha round. There were essentially three main areas where differences between countries could nor be bridged-agriculture, the Singapore is sues and, as a certain event, the 'Cancun Initiative' of the West African countries. (The latter comprised a package asking the U.S and the E.U as reduce their subsides for domestic common production).

The Cancun conference saw the emergence of a new phenomenon that could have far-reaching implications for economic diplomacy in several areas beyond the WTO. With the fifth ministerial meeting falling to make a break through in the Doha round also raised questions about the future of the Doha round and perhaps of the WTO itself.

The Doha agends has many issues but the most important is liberalisation of trade in agriculture. The vast subsides provided by the U.S., E.U., and Japan have been seen as barriers to fairer trade in farm producers. The developing and many least developed countries share the same prospective as major agricultural exporters like Australia. Where the traditional divide is agriculture in the WTO has been between the U.S and the E.U on one side and the "Cairns group of farm exporters is coaliton of developed and developing countries like Australia. New Zealand, Based, and Malaysia) on the other side, the Cancun conference and developing countries like Australia, New Zealand, Brazil, and Malaysia) on the other side, the Cancun conference saw the emergence of a new grouping called the G+ countries.

The G+countries, an initiative of Brazil, took shape in the weeks preceding the Cancun conferences as a counter to a U.S.E.U proposal on agriculture that was perceived is protecting the interests of the two biggest members of the WTO. The unusal feature of the G+ coalition was that while alliances at the WTO are traditionally of either the proponents of liberalized trade or the defenders trade controls, this condition had representatives from both sides. The members of the G+ included the biggest developing countries. Argenetina, Brazil, China, India and South Africa. Other members of the G+ included the bigger developing countries Argentina, Brazil, China, India and South Africa. Other members included indonesia. Chile, and the Philippines.

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The unifying principle of the coalition was that the developed countries should take the first steps towards reducing import duties and subsides in agriculture, while the developing countries should be permitted to continue with import controls. It was this principle that bought together farm exporters like Brazil and South Africa with defenders of trade controls like India.

The G+ membership grew during the Cancun conference, though some of the smaller South American countries subsequently left the coalition. However, what was significant was that the core membership of the coalition held together during the ministrial meet and withstood pressures from the U.S and F.U. to agree to their package. This was the first time in years that there was such an alliance of developing countries and proved effective. It was largely because of this coallition that India was able to leave Cancun with its controls on imports of agriculture in tact.

While the G+ coalition was formed solely for taking a stand on the WTP issues in agriculture, the long term significance of the success of the alliance at Cancun was that it has raised the possibility of the world's biggest developing countries forming a new bloc to counter U.S and E.U positions on international economic issues in all forums and not just at the WTO. The strength of such an alliance, of which India is a key member, is that it would represent the most populous and the largest economics in the developing world.

Cancun demonstrated that the developing countries could not be taken lightly at the WTO. The question is whether the structure of and the decision making in the WTO can be sufficiently altered to make it an effective and yet sensitive organization. The Indian position is that the world economy needs the WTO but what reach to be done is to make the organization more sensitive to the concerns of the developing countries. Other countries, however, have taken a more extreme view. The U.S. has said it will now work to advance its trade interests in bilateral and regional make agreements, by passing the multilateralism of the WTO. This is unlikely to happen, but a world that moves away from multilateralism poses dangers for countries such as India, which are not members of any economically significant trade bloc.

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8.7 WTO AND TRADE LIBERALISATION

The eighth and the latest Round of the multilateral trade negotiations held under the auspicious of the GATT is known as the Uruguay Round (UR) as it was launched in Panta del Este in Uruguay, a developing country, in September, 1986. Because ot thecomplexities of the issues involved and the conflicts of interests among the participating countries, the Uruguay Round could not be concluded in December, 1990 as was originally scheduled. When the negotiations dragged on, arther Dunkel, the then Director General of GATT, presented a Draft Act embodying what he thought was the result of the Uruguay Round. This came to be popularly known as the Dunkel Draft. This was replaced by an enlarged and modified final text which was approved by delegations from the member countries of the GATT on 15th December, 1993. This Final Act was signed by ministers of 125 governments in 15th April, 1994. The results of the Unguay Round are to be implemented within ten years since 1995. Different time periods are given for effecting the different agreements.

The first six Rounds of MTNs concentrated almost exclusively to reducing tariffs while the Seventh Round (Tokyo Round -1973-79) moved on to tackle Non-Tariff Barriers (NTEs). The U.R sought to broaden the scope of MTNs far wider by including new areas such as trade in services, Trade Related aspects of Intellectual Property (TRIPs) and Trade Related Investment Measures (TRIMs).

The next outstanding feature of the UR was the inclusion of the last subject referred to above in the MTNs of GATT. The traditional concerns of the GATT were limited to international trade in goods. The UR vent much beyond goods to services, technology, investment and information.

Some of the important features of the Uruguay Round Agreements are given below.

Because of the inclusion of these new aspects in the GATT negotiations, the developing countries had serious apprehensions, about outcome of the Uruguay Round.

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The Uruguay Round took up three basic subjects for discussion.

1. Reducing specific trade barriers and improving market access.
2. Strengthening GATT disciplines.
3. Problems of liberalisation of trade in services. Trade Related aspects of Intellectual properly rights (RRIP's) and Trade Related Investment Measures (TRIMs),

WTO

Following the UR Agreement, GATT was converted from a provisional agreement into a formal international organisation called World Trade Organisation (WTO) with effect from January 1, 1995. WTO will serve as a single institutional framework encompassing GATT and all the results of the Uruguay Round. It will be directed by a Ministerial conference that will meet at least once every two years and its regular business will be overseen by a General Council.

The old GATT system allowed, under what was known as the 'grand father clause' existing domestic legislation to continue even if it violated a GATT agreement that a member country had accepted by being a signatory to GATT. The WTO specially rules this out.

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* The data for the section, have been down mostly from MVIRDC World Trade Centre, GATI agreements-Final Text of Uruguay Round 1994 Mumbai MVIRDC World Trade Centre, 1994). World Bank Discussion Paper. The Uruguay Round and the Developing Economist entitled by Will Marin and Alan Winters (Washington D.C. The World Bank, 1995). The World Bank, Global Economic Prospects and the Developing countries (Washington D.C The World Bank, 1995) A.N. Oez, General Agreement on Tariffs and Trade, (1994 to Explanatory None), Visalpa, July-September 1995, Bibes Debroy, Be used the Uruguay Round The Indian perspective on GATTI New Delhi, Response Banks, 1996) Government of India Economic Serve).

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The WTO has the following five specific functions.

1. The WTO shall facilitate the implementation, administration and operation and further the objectives of the Multilateral Trade Agreements and shall also provide the framework for the implementation, administration and operation of plurilateral Trade Agreements.

2. The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreements.

3. The WTO shall administer the 'Understanding on Rules and Producers Governing the Settlements of Disputes'.

4. The WTO shall administer the 'Trade Review Mechanism'

5. With a view to achieving greater coherence in global economic policy making, the WTO shall co-operate, as appropriate, with the IMF and IBRD and its affiliated agencies.

The General Council will serve four main functions.

1. To supervise on a regular basis the operations of the revised agreements and ministerial declarations relating to (a) goods, (b) services and TRIPs:

2. To act as a Dispute Settlement Body;

3. To serve as a Trade Review Mechanism; and

4. To establish Goods Council, Services Council and TRIPs Council, as subsidiary bodies.

The WTO is a more powerful body with enlarged functions that the GATT and is envisaged to play a major role in the world economic affairs. The become a member of the WTO, a country must completely accept the results of the Uruguay Round.

Tariff Barriers-Liberalisation of Trade in Manufactures.

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The UR Agreement envisages substantial tariff reductions in both industrial and developing countries.

The main liberalisations by industrial countries include the expansion of tariff bindings (i.e., commitment not to exceed a particular level of tariff to cover 99 percent of imports, the expansion of duty-free access from 20th 43 percent of imports, and the reduction of trade weighted average tariff by 40 per cent, from 6.2 to 3.7 percent.

However, the gains to developing countries from the tariff custs by industrial countries is less impressive. The reduction in the average tariff on their exports to industrial markets is 30 per cent and the labour intensive manufactures (textiles, clothing, leather goods) and certain processed primary products (fish products) which are regarded as sensitive have below average tariff cuts.

In industrial countries, tariffs will be eliminated in several sectors like sed, pharmaceuticals and wood and wood products.

Developing countries agreed to hind their tariffs on 61 per cent of their imports of industrial products, compared with 13 per cent before the UR Round. They also offered reduced their trade-weighted average bound tariff on imports form industrial countries by 28 per cent, from 15 to 11 percent. The offers of tariff reduction on manufactures, by developing countries are estimated to amount to over a third of the world total. The expansion of tariff binding by the developing countries, which rules out future increases in tariffs, is regarded as a significant achievement.

India has bound tariffs as 40 per cent (where they were above 40 per cent in 1993-94) on industrial raw materials, components and capital goods and at 25 per cent in other cases. After the UR agreement comes into force, about 68 per cent of India's tariff lines will be bound (compared to five

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percent earlier). In comparison, many developing countries in Asia and Latin America have bound between 90 and 100 per cent of their tariff lines at levels comparable to, or lower than, India's bindings.

Non-tariff Barriers

In the area of NTBs the Agreement to abolish Voluntary Export Restraints (VERs) and to phase out the Multifibre Arrangements (MfA) are regarded as landmark achievements for developing countries.

International trade to textiles was restricted for a long time by MFA type arrangements between importing developed economies and exporting developing economies which restricted textile imports to developed economics.

The main objective of the industrial economies in restricting the textile imports was to protect the domestic industry. The increase in the productivity in the textile industry reduced employment in this industry. Added to this was the threat of the surging imports from the low-cost producers and consequent industrialization in the absence of protective.

The MFA certainly was against the most fundamental principle of multilateral trading system-the principle of non-discrimination. Because of the restriction, consumers in the MFA importing countries had to pay a heavy price. Trade was distorted. The exports and economic growth of developing countries suffered.

The UR Agreements seeks to phase out the MFA by 2005.

The phasing out of the existing VERs within four years and the MFA within ten years would scale back the converage of NTBs on developing countries trade from 18 percent of their 1992 exports. As trade in derestricted product lines would tend to grow faster than other trade, this coverage could fail to 4.2 per cent by 2005.

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According to some estimates the phasing out of MFA would contribute about 2 percent of the total welfare gains from the UR. The largest gains will go to the MFA importers who will be able to import basic clothing and textiles from the more efficient suppliers in ASEAN, China, South Asia and other regions. By 2005, the total benefits to the European Community, the US and Canada are estimated at $ 56 billion per year at 1992 prices. Income gains of over $ 13 billion are projected for highly competitive exporters such as China, Indonesia, Thailand and South Asian exporters, despite the loss of quota rents provided under the MFA. Some less competitive exporters will suffer from the loss of their preferential access to industrial country markes unless they are able to increase their efficiency, and some currently unrestricted importers will lose as the exports currently diverted toward them by restrictions elsewhere can flow freely to the other markets.

Liberalisation of Agricultural Trade

As mentioned earlier, one of the salient features of the UR was the inclusion, for the first time, of agriculture in the MTN. The exclusion of agriculture from the previous Rounds and its effective exemption from the GATT discipline made agriculture a highly protected sector in the developed countries. According to GATT estimates, the annual domestic support for agricultural products averaged $ 173 billion in industrial economics and $ 24 billion in developing, economies over 1986-88 and the export subsides averaged $ 18.2 billion and $ 3.2 billion, respectively, over 1986-90. According to the calculations of the OECD, industrial countries transferred more than $ 14,400 on an average, to each full time farmer in 1993. The depressing impact of this on world prices prevented efficient producers from realizing the benefits of their comparative advantage. Developing country exports suffered a lot.

The important aspects of the UR Agreement on agriculture include.

(i) Tariffication

(ii) Tariff binding

(iii) Tariff cuts

(iv) Reduction in subsides and domestic support

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Tariffication and Tariff Cuts

Tariffication means the replacement of existing non-tariff restriction or trade such as import quotas by such tariffs as would provide substantially the same level of production.

From the first year of the Agreement's implementation, nearly all border protection is to be bound by tariffs, which (in principle) are to be no higher than the tariff equivalent of the protection levels prevailing in the base periods.

Industrial countries are then to reduce their until bindings by an average of 36 percent within six years (from 1995) while all developing countries but the poorest are required to reduce tariffs by an average of 24 per cent over a period of ten years. Least developed countries are not required to make any commitment for reduction of tariffs on agricultural products.

On agricultural tariffs, developing countries have the flexibility of indicating maximum ceiling binding. India had indicated cooling bindings of 100 per cent on primary products and 300 per cent on edible oils.

Subsidies and Domestic Support Policies

The UR Agreement deals with three categories of subsidies, (i) prohibited subsidies-those contingent upon export performance or the use of domestic instead of imported goods; (ii) actionable subsides - those that have demonstrably adverse effects on other member countries; and (iii) non-actionable subsidies including those provided (with stipulated limitations) to industrial research and procompetitive development activity to disadvantaged regards, or to existing facilities to adopt themselves to new environmental requirements.

The Agreement also puts restrictions on the use of countervailing measures against competitor's subsides. To prevent undue hardships, developing countries and countries in transition from centrally planned to market economies are allowed extra time to bring the subsides into conformity with the new rules.

While industrial economies are required to reduce, over six years, the volume of subsidized agricultural exports by at least 21 per cent and the value of subsidies at least by 36 per cent, the respective figures for developing countries are 14 per cent and 24 per cent. All countries are bound not to introduce new subsidies.

The UR agreement has brought the domestic support policies also under the multilateral trade discipline. However, domestic support measures that have almost a minimal impact on trade ("green box" policies) such a general government services in the areas of research, disease control, infrastructure and food security as also certain direct payments such as certain income support policies; structural adjustment assistance, payment under environmental programmes and regional assistance programmes are exempted. The non-exempted types of subsidies included in the Aggregate Measure of Support (AMS) required to be reduced include assistance in the form of production-limiting subsidies and assistance given for growth of agriculture and rural development like procurement at support prices and subsidies on inputs and credit. However, even these subsidies are required to be reduced only if their total amount as a proportion of the value of agricultural production exceeds five percent in case of developed countries and 10 per cent in case of developing countries. If the non-exempted subsideies are above these limits, they are required to be reduced by 20 per cent in case of developed countries and by 13.3 per cent in developing countries by 1999.

According to Government of India, India's total AMS is negative (without taking into account exemptions available on input subsidies to low income and resource poor farmers) and there are no reduction commitments. Nor does India have any minimum market access commitments in agriculture, (the UR Agreement provides for the establishment of minimum access tariff quotas, as reduced tariff rates, where the access is less than 3 per cent of the domestic consumption. The minimum access tariff quotas are to be expanded to five per cent over the implementation. period)

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Assistance for "food security" such as the food subsidy under the Public Distribution System (PDS) will be exempted to the extent they confine to the poor.

Non-agricultural Export Subsidies

Countries whose per capital income is less than $ 1000 is not bound to phase out export subsidies. (India's per capital income in 1994 was only $ 310). However, even such countries will have to phase out export subsidies on products where the share in the world exports is 3.25 per cent or more in two consecutive years. This is applicable to India in respect of exports of diamonds.

GATS

The General Agreement on Trade in Services (GATS) which extends multilateral rules and disciplines to services is regarded as a landmark achievement of ths UR., although it achieved only little in terms of immediate liberalization.

Because of the special characteristics and the socio-economic and political implications of certain services, they have been generally subject to various types of national restrictions. Protective measures include visa requirements, investment regulations, restrictions on repatriation, marketing regulations on employment of foreigners, compulsions to use local facilities etc., Heavily protected services in different countries include-banking and insurance, transportation, television, radio, film and other form of communication and so on.

The GATS defines services as the supply of a service.

(i) From the territory of the member (country) into the territory of any other member.

(ii) In the territory of one member to the service consumer of any other member.

(iii) By a service suppliers of one member, through commercial presence in the territory of any other member.

(iv) By a service' supplier of one member, though presence of natural persons of a member in the territory of any other member.

The GATT covers four modes of international delivery of services:

(i) Cross-border supply (transborder data flows, transportation services)

(ii) Commercial presence (provision of services abroad through FDI or representative offices)

(iii) Movement of personnel (entry and temporary say of foreign consultants)

While industrial countries have offered market access commitment of some kind on over half (about 54 per cent) of their service activities, developing countries did so only on less than one-fifth (about 17 per cent) of their service categories. Tourism and travel relatled services are the only activities in which a substantial number of developing countries made commitments.

The framework of GATS includes basic obligation of all member countries on international trade in services, including financial services, tele-communication, transport, audio visual, tourism and professional services, as well as movement of workers.

Among the obligatioins is a Most Favoured Nation (MFN) obligation that essentially prevents countries from discriminating among foreign suppliers of services.

Another obligation is the transparency requirements according to which each member country shall promptly publish all its relevant laws and regualaions pertaining to services including international agreements pertaining to trade in services to which the member is a signatory. Further, each member shall also respond promptly to all requests for specific information, by any other member, pertaining to any aspect of the service covered by the GATS. Each member shall also establish one or more

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enquiry points to provide specific inforamtion to other members. However, no member needs to provide any confifential information, the discolosure of which would impede law enforcement, or otherwise be contrary to public interest, or which would prejudice legitimate commercial interests of particular enterprise, public or private.

The GATS lays down that increasing participation of developing countries inworld trade shall be facilitated through negotiated commitments on accesss to technology, improvements in access to distribution channel and information networks and the liberalisatioin of market access in sectors and modes of supply of export interest to them.

With reference to domestic regualtion, the Agreement lays down the all measures of general application affecting to trade in services are administered in a reasonable, objective and impartial manner. There would be a requirement that parties establish ways and means for prompt reviews of administrative decisions relating to the supply of services.

It is recognized that particular pressures on the balance of payments of a Member in the process of economic development or economic transition may necessitate may necessitate the use of restrictions to ensure, inter-alia, the maintenance of a level of financial reserves adequate for the implementation of its programme of economic development or economic transition.

A member country may, therefore, apply restrictioins on international transfers and payments for current transactions under certain circumstances envisaged under the GATS in the event of serious balance of payments and external financial difficulties or threat thereof, a member may adopt or maintain restictioins or trade in services on which it has undertaken specific commitments including on payments or transfers for transactions related a such commitments.

The commitments of member countries under the GATS also include national treatment (that is, to foreign suppliers of services like domestic suppliers) and provision of market access.

The Agreement of Trade in Services also establishes the basis for progressive liberalisation of trade in services through successive rounds of negotiations, which also applies to other agreement under the Final Art.

As stated earlier, the fear of the developing countries is that are liberalizatioins of trade in services will lead to the domination of the services sector of the developing countries by the mulinationals of the industrialized countries. As a matter of fact, the trade in services is already dominated by the developed countries. The developing countries are no importers of services and their deficit has been growing. The apprehension is that a liberalisation of trade in services will accentuate the problem.

Although many services are labour intensive and, therefore to developing countries should be expected to have an advantage here, that have been several constraints in benefiting from this advantage. These include, technical, organizational, financial and legal. Moreover, immigration laws of developed countries restrict the manpower flow from the developing to developed countries. This severely limits the scope of developing countries in benefiting from their comparative advantage. It may be noted that the industrial countries did not like to bring this issue in the Uruguay Round.

8.8 TRIMS

Trade Related Investment Measures (TRIMs) refers to certain conditions or restrictions imposed by a government in respect of foreign investment in the counrty. TRIMs were widely employed by developing countries.

The Agreement on TRIMs provides that no contracting party shall apply any TRIM which is inconsistent with the WTO Articles. All illustrative list identifies the following TRIMS as inconsistent.

1. Local requirement (i.e., a certain amount of local inputs be used in products)
2. Trade balancing requirement (i.e., imports shall not exceed a certain proportion of exports)

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WTO AND TRADE LIBERALISATION:

WTO:

1. Tariff Barriers- Liberalisation of Trade in Manufactures,
2. Non-tariff Barriers,
3. Liberalisation of Agricultural Trade,
4. Tariffication and Tariff Cuts,
5. Subsidies and Domestic Support Policies,
6. Non-agricultural Export Subsidies

GATS:

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3. Trade and foreign exchange balancing requirements
4. Domestic sales requirements (i.e., a company shall sell a certain proportion of its output locally)

The Agreement requires the notification of all WTO inconsistent TRIMs and their phasing out within two, five and seven years by industral, developing and least developed countries respectively. Transition period can be extended for developing and least developed countries if they face difficulties in eliminating TRIMs.

A number of TRIMs were employed in India prior to the liberalisation entered in 1991 and many of them have been phased out since then.

8.9 TRIPS

One of the most controversial outcomes of the UR is the Agreement on Trade Related Aspects of Intellectual Property Rights including Trade in Conterfeit Goods (TRIPS). TRIPs along with TRIMs and services were called the "new issues" negotiated in the Uruguay Round.

Intellectual Property Rights may be defined and "information with a commercial value". IPRs have been characterized as a composite of "ideas, mentions and creative expression" plus the public willingness to best to status of property" on them and give their owners the right to exclude others from access to or use of protected subject-matter".

IPRs may be legally protected by parents, copy rights, industrial designs, geographical indications and trade markes. Special (sui genies forms of protection have also emerged to address specific needs of knowledge - producers as in the case of plant breeder's rights and the protection of layout designs of integrated circuits. A number of countries also have trade secret laws to protect undisclosed information that gives a competitive advantage to its owner.

The UR Agreement of TRIPs covers seven intellectual properties, viz.,

1. copyrights and related rights
2. trademark
3. geographical indications

4. industrial designs
5. patents
6. Layout designs (topographics) of integrated circuits and
7. undisclosed information.

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On copy rights and related rights, the Agreement requires compliance with the provisions of Berne Convention to which India is a signatory and to new Copyright Act of India already meets the requirements of the TRPs Agreement. A Bill to attend the Trade and Merchandise Marks Act of 1950, so as to provide for the protection of service marks, was introduced to Parliament, in 1993. In India there is no specific law on geographical indications, although the case law permits protection of geographical indications. A new law will have to be enacted with the five-year transition period allowed under the Agreement. India also has to make provision for the protection of layout designs of integrated circuits and protection of undisclosed information within the transition period of five years.

The UR Agreement on parents is in substantial variance with the Indian Patent Act of 1970 and, therefore, has given rise to lot of controversy at India.

A parent is legal protection granted for an invention that is new and useful. The patent grants the patent holder the exclusive right to make as or sell the patented products or process. Patented inventions are disclosed. The main purpose of the patent system is to benefit the society. Patents providing an opportunity to recoup the cost of invention (which is quite substantial in many cases) and to make profit out of the invention encourages research and dvelopment and thereby contributes to the being of the society.

According to the UR Agreement on patents, patents shall be available for any inventions, whether products or produces in all fieldls of technology, provided that they are new, involve an incentive step and are capable of industrial applicatiion.

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Exclusion of an invention from patentability for commercial exploitations is permitted if it is necessary to protect public order of morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment, Members may also exclude from patentability: (a) diagnostic, therapeutic and surgical methods for the treatment of humans or animals; (b) plants and animals other than micro organisms and essentially biological process for the production of plants and animals other than non-biological and micro- biological process.

However, members shall provide for the prosection of plant varieties either by patents by an effective sui generis system or by any contribution thereof.

Indian Patent Law and UR Agreement

There are significant differences between the UR Agreement on patent and the Indian Patent Act 1971, as those of the patent laws of several other developing countries.

Under the Indian Patent Act of 1970, patentability of inventions relating to substances intended for use as food, drug or medicines or substances produced by chemical processes is limited to the methods of processes of manufacturer only. This means that one can make and market is product similar to the patented product through a different process or method than the patented one. This practice has been prevalent in the Indian pharmaceutical industry. The UR Agreement requires both product and process patents.

Exhibit 15.1 highlights the main differences between the Indian patents Act, 1970 and TRIPs under the UR Agreement.

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EXHIBIT 15.1

Comparison Between Indian Patent Act, 1970 Ur Agreement

Indian Patent Act 1970	UR Agreement
Only process patents in fields of food, drugs/medicine, and patent in these cases.	Product patent is also application to fixed drug/medicine and chemical substance a sell as all other products.
Patent expiry period is 5 to 7 years in case of land medicine, drug and chemcial substances and 14 years in case of other patents.	Patent expiry period is 20 years for all products
Plants and animals, including micro organisms, and biological and microbiological processes for the productioin of plants or animals are not patentable.	Only plants, animals and biological process are not patentable.
No Sui generis system existing to protect rights of inventors plants and seed varieties.	Micro-organisms and non-biological and micro-biological process are patentable. Right of inventors of plant and seed varieties to be protected through a Sui gener is system like the plant Breeder's Act of Us.
Processes for treatment of human beings and animals are not patentable compulsory lincesing of any patent is granted for three years if requirements of public interests such as sufficient availability or reasonable prices are not staisfied.	Processes/methods for treatment of human beings and animals not patentable. Compulsory licensing of any patent allowed only under exceptional, very strict conditions.
A patent is treated as "Working" only when it is used in local manufacturing (i.e., used for production in India)	A Patent is treated as "Working" even when it is not used in local manufacturing.

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Importation of patented products is not treated as "working" patent.	A patent is considered "working" even when the patented product is only imported
A patent can be revoked it is found non-working in the above sense.	A patent cannot be revoked because it is non-working.
Infringement proceedings are permitted under Indian patent law.	Infringement action of effective protection against unfair,dishonest practice to be as sured by patent laws of all member countries.
The ones of proof of infringement is on the patentee.	The ones is on the accused to prove that he has not infringec the concerned patent.
That is, the patentee has to establish a prime facie case of infringement of his patent. Thus the guiding principle is "innocent till proved guilty".	Thus, the guiding rule is reversed, viz., "guility till proved innocent".
There is ceiling on the royalty or fee that the patent holder can demand from a licensee.	There can be no ceiling on the fee or loyalty that can be demanded from a licensee by the patentholder.

A transitioin period of ten years is allowed for the adoption of product patent.

A major criticism of the UR Agreement is that the acceptance of product patents will strangle the growth of the Indian pharmaceutical industry and monopolization of the vital areas of this industry by multinationals will result in sharp increase in drug prices. This fear, however, seems to be exaggereated. For details refer the chapter on Protection of Patents and Trade Marks.

A major area concern for India is the protection of the biodiversity. India does not have Sui generis system for its protection. The absence of a legal mechanism to protect our heritage of common knowledge and even what are there in the ancient books and scripts may lead to bioipiracy by firms/individuals in developed countries as happened in the case of granting patent for the "invention"

in the USA that turmeric can promote the healing of wounds or the medicinal and other properties of neem. We shall have a sui generis patent system that takes care of these.

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Anti-dumpting Measures:

The UR Agreement provides greater clarity and more detailed rules concerning the method of determining dumping and injury, the procedure to be followed in anti-dumping investigation, and the duration of anti-dumping measures. It also ;clarifies the role of dispute-settlement panels in conflicts relating to anti-dumping actions taken by national authorities.

A product is regarded as dumped when its export price is less than the normal price in the exporting country or its cost of production plus a reasonable amount for administrative, selling and any other costs and for profits.

Anti-dumping measures can be employed only if dumped imports are shown to cause serious damage to the domestic industry in the importing country. Further, anti-dumping measures are not allowed if the margin of dumping (i.e., the price differences) is de minimis (defined as 2 per cent of the export price of the product) or the volume of dumped imports is negligible (less that 3 per cent of imports of the product in question).

Safeguard Actions

Members may take safeguard actions, i.e., import restrictions to protect a domestic industry from the negative effects of an unforeseen import surge, if a domestic industry is threatened with serious injury. The UR Agreement, however, prohibits the use of such action where they constitute grey-area measures, including volunatry exports estrains, orderly marketing arrangements or other similar measures applied on either exports or imports. The existing grey area measures are to phased out by 1999. Further, the Agreement provides for discipline on the use of all regard measures, including time limits, requirements for safeguard investigation, and non-discrimination (generally) among sources of supply.

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Safeguard measures would not be applicable to developing countries where their share in the member country's important the product concerned is relatively small.

8.10 AN EVALUATION OF THE URUGUAY ROUND

The Uruguay Round was by far most complex and controversial one. The fact that it look more than seven years to complete the negotiatioins as against the originally contemplated more than four years indicates the complexities involved. It is the inclusion of new areas like TRIPs, TRIMs, services and the attempts to liberalise agricultural trade and the elimination of NTBs like MFA that increased the complexity of lthe negotiations.

The success of the UR Agreement will depend upon the spirit with which it will be translated into practice. The tariffication of trade barriers was claimed to be a significant success of the UR. However, because of the way the NTBs were converted into tariffs, the so-called dirty tariffication, many of the tariffs bindings exceeded the protection rate applying during the base period (which itself was one of generally high level of protection), some by as much as 200 per cent.

Several estimates of the gains from the UR Agreement are available. They vary widely. Accoring to some estimates the real world income (in constant 1992 US dollar) will increase by between $212 billion on and $272 billion in 2005. Further, such annual increases will follow, This amounts to around one per cent of World GDP. Accoring to a GATT study the gains will be as high as $510 billion.

Most of the gains will accure to the developed countries. Some developing countries in the category of least developed countries and no food importers are expected to lose because of the Uruguay Round package.

According to some estimated the increase in real income will be roughly 1.6 per cent of GDP for the European Union, 0.2 per cent for the US and 0.9 for Japan. As a single country, the largest gain in absolute term will accure to the US (between $28 and $67 billion). It will be between $27 and $42 billion for Japan,

between $61 and $98 billion for the European and between $36 and $78 billion for the developing countries. The gains would amount to about 2.5 per cent of the GDP for China, 0.5 per cent for India, 0.6 per cent for South Africa and 0.3 per cent for Brazil.

According to GATT estimates, World trade would increase by per can't (on top of the normal growth rate), if the UR package is complete implemented. In constant 1992 US dollars, this represents an increase $745 billion. The value of word exports (including services) will increase by around 10 per cent. Exports of North Americal will increase by 8 per cent and European union by 10.34 per cent. Some of the largest projected countries in world trade are in areas that are of interest to developing countries. For instance, world trade in textiles is projected to grow by 34 per cent, that in clothing by 60 per cent and that in agricultural, forestry and fishery products by 20 per cent.

Accounting to the estimated made by the World Bank, OECD and the GATT Secretariat the income effects of the implementation of UR package will add between $213 to 274 billion annually to world income. The GATT Secretariate's estimate of the overall trade impacts is that the level of merchandise trade in goods will be higher by $745 billion in the year 2005, than it would otherwise have seen. The largest increase will be in the areas of clothing (60 per cent), agriculture, forestry and fishery products (20 per cent) and processed food and beverages (19 per cent). Since India's existing potential export competitiveness lies to a significant in these product groups, India could be expected to obtain gains in these sectors.

Accoring to one estimate, cuts in protection on total merchandise trade will increase real incomes in developing countries by $55 to 90 billion (or 1.2 to 2 per cent of their GDP in 1992) while the gains to the world as a whole will be in the order of $200 billion.

UR Agreement and Developing Countries

As in the case of the previous Rounds, the developing countries, in general are dissatisfied with the outcome of the Uruguay Round. The Wall Street Journal

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has reported that while the US and the EC are getting the best pieces of the world trade pie, the developing countries are getting crumbs.

Some of the areas like TRIPs, TRIMs and services have been very sensitive as far as the developing countries are concerned as the Uruguay Round Agreements in them mean that developing countries will have to lower the protection aganist competition from the unequal developed economics. However, as in the previous Rounds, the UR also gives special consideratioins to developing countries, particularly to the least developed countries and to those with balance of payments problems. The Agreement however, lays down that member countries imposing trade restrictioin for balance of payment purposes should do so in a way that causes minimum disruption to international trade and quantitative restrictions should be avoided as far as possible.

Indeed, it would be the developed countries who would suffer most by liberalisation of the agricultural sector. But to argue that the developed countries should completely liberalise agriculture without any reciprocity on part of the developing countries is clearly illogical. As a matter of fact, the UR proposals in respect of agriculture, as in several other cases, give special consideration to the developing countries. Developed countries will, however, he hit hard. For example, agricultural subsidies in the Europoean countries have been of the order of 30 to 50 per cent.

While the liberalization of agricultural trade and the increase it agricultural prices due to cut in producer subsidies in the developed countries would benefit agricultural exporters, the increase in focal prices due to cut in subsidaries may adversely affect the fixed importers. More than full of the developing nations are reported to be net food importers. However, the increase in food prices should be expected to make food production is these countries more competitive leading to lan increase in production. It may be noted here that it has been alleged that the subsidization of production and export of farm production in the developed countries would have the effect of discouraging their production in the developing countries where farmers have not been able to compete with the imported staff hearing

artifically low price because of the subsidies. It is estimated that since subsidized agricultural exports cannot be dumped on the world market, international agricultural prices could go up by as much as 10 per cent.

One of the major area of disappointment for many developing countries is trade in textiles. Textiles is one of their most important export items but developed countries have been following a very restrictive import policy. The developing countries wanted a fast phasing out of the multifibre arrangement (MFA) under which the textile imports have been restricted. However, the MFA will be phased out, in stages, over a 10 year period and a major part of the liberalization will take place only towards the end of lthe transitional period. A little consolation for the developing countries is that the US demand for extending the phase out period to 15 years was no accepted.

International trade in textiles is estimated to the worth $249 billion year. Estimate are that after the phasing out of MFA, world exports of textiles may go up by $25 billion a year. With a 2.2 per cent share in the world textile trade. India's share in the additional exports could be $50.55 billion, But the real gain depend on the country's ability to compete with countries like China, Hong Kong, Taiwan, South Korea etc., which are considered leaders in the textile trade.

Developing countries were very apprehensive about the proposal to liberalize trade in services. However, fortunately for them, the differences of opinion between the US and EC on this issue left the service sector largely unaffected.

The effect of the UR is not the same on all countries. For example, a measure which favourably affects one developed country may unfavouably affect another developed country. Further, the extent of the favourable or unfavourable impact may also vary. It is, therefore, quite natural that conflicts of interest have occurred both among developedand developing countries. Latin American countries were perhaps not very interested in liberalizing the trade in textile because they calculated that if they could gain a direct entry to the NAFTA through some regional arrangement, it would provide them an edge over competitors like India and Pakistan.

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Some studies also show that sub-saharan Africa, Indonesia and some Carbbean islands will be poorer as a result of the UR Agreement. However, if liberalization leads to higher productivity,they would also gain.

No country is, therefore, entirely pleased with the UR proposals. "The surest proff of the success of the Uruguay Round is that no country is entired happy at the outcome. "Although India is quite dissatisfied that the textile trade is not adequately liberalized. Some people in the US are angry over the liberaliztion,move, alleging that two million jobs in the Us would now hang in balance.

As the foreign minister of Uruguay remarked, all mission is which signed the Uruguay Round Trade Agreement have, "a sense of shared dissatisfation" As theGATT Director General Peter Sutherland Stated, the singing of the Uruguay Round trad pact does not mean the end of disputes. Sutherland remarked that it market the start of disputes. There will be disputes between developed and developing countries, between developing countries and between developed countries. "There are more than 5 billion people competing for their share of the pic, and that makes conflicts all lthe more inevitable."

One of the achievements of the UR is the making of the rules and regulations more transparent, thus making trade harassment and unlateral actions more difficult. The results of the UR will be implemented by the newly set up World Trading Organisation (WTO) making dispute settlement and arbitration easier.

UR Agreement and India

The Uruguay Round Agreements have come in for scathing criticism in India. Many politicians and others have argued the India should withdraw from the GATT. Most of the criticisms are either baseless or due to lalck of knowledge of the international trading environment, and transformation, or are just meant to oppose the government by the opposition parties.

It is true that the Round mostly benefits the developed countries. That does not mean the developing countries like India are sign-only their gain is limited as compared to that of the developed countries.

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Accepting the demand of some of the critics, that India should withdraw from the WTO will be a great blunder that the nation can commit. By being a part of WTO India enjoys the Most Favoured Natioin (MFN) states with all the other members of the WTO. Opting out of the system would mean an infineitely laboriouis task of entering into bilateral negotiations with each and every one of the trading partners which would amount to "having one"s arms twisted bilaterally by the US. The FC and Japan, trm by tum, on everything from intellectual property rights to NPT human rights and environmentally clear technologies for packaging." It may be noted at this juncture that countries like China are waiting impatiently to get admitted to the WTO.

One major controversy of GATT is the agricultural subsidies. Much hue and cry have been raised in India about this factor. However reach to be mentioned that the GATT decision would not adversely affect India's agricultural subsides and its agriculture exports. Other developing countries would also largely benefit because of the lowering of the agriculural protection by the developed countries, in spite of the fact that the with of the developing countries that the major Western natiions would totally drop subsidies for their producers, substantially lower tariffs and open markets did not materialize.

Accoring to Government of India, the Market Access Agreements signed by India with the U.S.A. and EU will result in additional export earning of around Rs. 1100 crores in the initial years and the additional access achieved will get magnified in the second and third phases of integration of the textiles trade with the multinatioinal trade system and will provide larger earnings during these periods.

Assuming that India's market share in world exports improves to one per cent, and that she is able to take advantage of the opportunities that are created, the trade gains may consequently he placed at $2.7 billion exports per year. More generous estimates range from $35 to 7 billion worth of extra exports.

However, India's gain will be much less than those of several other developing countries like China and the newly industrialized economics because: (i) India's share in the world made is very low; (ii) The foreign trade - DGP ratio of India is low. The gain will also depend on the rate of growth of India's exports.

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True or False:

1. Government of India have taken a number of measures for the development of foreign trade. (true/false)
2. The Directoe General is empowered to suspend or cancel the importer Exporter code Number. (true/false)
3. Where any conbra-vention of any condi-tion of the licence or letter of authority under which any goods are imported is suspected. (true/false)
4. The new Exim policy is but a part of the new economic policy of India. (true/false)
5. A part is not a legal protection granted for an invention that is new and useful. (true/false)

Answer:

1. True 2. True
3. True 4. False
5. True

8.11 KEY TERMS

* Seizure
* Prohibited
* Trademark
* Trims

8.12 SUMMARY

India's foreign affairs, exim policy, export and import policy, features, Wto, Trims and Trips are dealt in with details in this chapter.

8.13 MODEL QUESTIONS

Section - A

1. What are main provisions of the foreign trade development and regulation act 1992?
2. What is Export and Import policy? What are the features of export policy?
3. Explain WTO and Trade Liberalisation.
4. Define (i) GATS (ii) TRIMS
5. Explain an Evaluation of the Uruguay round.

Section - B

1. Explain policy modifications.
2. Describe subsideies and domestic support polices.
3. Explain TRIPS.
4. Write about comparison between Indian Patent Act, 1970 Ur Agreement.

LESSON - 9

NOTES

EXPORT PROMOTION

STRUCTURE

9.0 Introduction

9.1 Unit Objectives

9.2 Organisational Setup

9.3 Incentives

9.4 Role of Exim Bank

9.5 Functions of Exim bank

9.6 Export Promotion Councils.

9.7 Key Terms

9.8 Summary

9.9 Model Questions

9.0 INTRODUCTION

Most developing countries have resorted to a number of export promotion measures. India has also been providing export assistanve to Indian exporters. However, the WTO agreement on subsidies and countervailing duties does not allow specific types of export subsides. The Government of India is, therefore, removing those export incentives which are not WTO compatible.

An exporter needs guidance and assistance at different stages of his export effort. For this purpose, the Government of India has setup several institutions whose main functions are to help an exporter in his work. It would be advisable for an exporter to acquaint himself with these institutions and the nature of help that they can render to him so that he can initially contact them and have a clear picture of what help he can expect of the organised sources in his export effort.

The principal objectives of export promotion measures in India are to

1. Compensate the exporters for the high domestic cost of production.
2. Provide necessary assistance to the new and intant exporters to develop their export business.

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3. Increase the relative profitability of the export business Vis-a-Vis the domestic business.

9.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* The high domestic cost of production
* The role and functions of exim bank
* Increase the relative profitability
* Export promotion councils

9.2 ORGANISATIONAL SETUP

Government has established or sponsored a number of organisation to provide different types of assistance to the exporters. Apart from the organisations established exculsively for export promotion, there are also a number of other institutions which assist the export sector. An outline of the important organisations which are established for export promotion are discussed below.

The ministry of Commerce, Government of India, is the most important organ concerned with the promotion and regulation of the foreign trade of the country. The ministry has elaborate organisational arrangements to look after various aspects of trade regulation and promotion. Matters related to foreign trade are dealt with by eight divisions in the Department of Commerce of the Ministry of Commerce, namely.

1. Administrative and general division,
2. Finance Division,
3. Economic Division,
4. Trade Policy Division,
5. Foreign Trade Territorial Division,
6. Export Products Division,
7. Services Division and
8. Industries Division.

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The following trading Service Corporation as Public Sector Undertaking are functioning under the administrative control of the Ministry of Commerce.

1. The State Trading Corporation of India and its subsidiaries.
2. The Minerals and Metals Trading Corporation of India and its subsidiary, viz., Mica Trading Corporation.
3. The Spices Trading Corporation
4. The Export Credit Guarantee Corporation

Office of the Director General of Foreign Trade (DGFT), Directorate General of Commercial Intelligence and Statistics, and offices of Development Commissioners for the free trade zones and export Processing Zones are the subordinate offices to boost up the export and import trade.

The Central Advisory Council on Trade, Consisting of representatives from different organisations and individuals with business standing and expertise in the field of trade and commerce, advises Government on matters relating to

1. Export and Import Policy Programme,
2. Operation of import and export trade controls,
3. Organisation and Development of Commercial Services,
4. Organisation and expansion of export production.

The Commerce Minister is the chairman of this Council.

Following are the Autonomous Bodies which are functioning for the export promotion.

1. Commodity Boards:

There are five statutory Commodity Boards responsible for production development and export of tea, coffee, rubber, spices and tobacco.

2. Export Inspection Council:

This statutory body is responsible for the enforcement of quality control and Compulsory Preshipment inspection of various exportable commodities.

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3. Indian Institute of Foreign Trade:

It is registered under the Societies Registration Act, is engaged in the following activities.

i) Training of Personnel in modern techniques of international trade.

ii) Organisation of research in problems of foreign trade.

iii) Organisation of marketing research, area surveys, commodity surveys and market surveys.

iv) Dissemination of information arising from its activities relating to research and market studies.

4. Indian Institute of Packaging:

It is registered under the Societies Registration Act. The main aims of the institute are to undertake research on raw materials for the packaging industry, organsise training programmes on Packaging technology, and to stimulate consciousness of the need for goods packaging etc.,

5. Export Promotion Councils:

There are a number of Export Promotion Councils under the administrative Control of Ministry of Commerce. These Councils are registered as Non-Profit organisations under the Companies Act. The Councils perform both advisory and executive functions. These Councils are also lthe registering authorities under the Import Policy for Registered Exporters.

6. Federation of Indian Export Organisations:

The Federation of Indian Export Organisations is an apex body of various export Promotion Organisations and institutions. It also functions as a Primary Sevicing agency to provide integrated assistance to Government recognised Export Houses and as a Central Co-ordinary agency in respect of export promotion efforts in the field of consultancy sevices in the country.

7. Indian Council of Arbitration:

The Indian council of Arbitration, setup under the Societies Registration Act, Promotes arbitration as a means of setting commercial disputes and popularises arbitration among the traders, particularly those engaged in international trade.

8. Marine Products Exports Development Authority:

The MPEDA is responsible for development of the marine products industry with special reference to exports.

9. Agricultural and Processed Food Products Export Development Authority:

The APEDA, setup in 1986, serves as the focal point for agriculatural exports, particularly the marketing of processed foods in value-added forms.

10. India Trade Promotion Organisation:

The ITPO was brought into being in 1992 by merging together the erstwhile Trade Fair Authority of India (TFAI) and the erstwhile Trade Development Authority of India (TDAI).

9.3 INCENTIVES

For better export promotion, incentives are a widely employed strategy. The main aim of these incentives is to increase the Profitability of export business, Important export incentives in India include rebate on duties, cash compensatory support, income tax concession, interest subsidies, freight subsidy etc. It has been common to describe these are incentives.

1) Duty Drawback:

The Scheme of duty drawback ;is designed to avoid the incidence of commodity taxes such as excise duty and customs duties on the exports so as to make the exports more price competitive. Customs duties and excise duties on inputs raise the costs of production in export industries and thereby affect the competitiveness of exports. Therefore, exporters need to be compensated for the escalation in their costs attributable to such customs and excise duties. Under the

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ORGANISATIONAL SETUP:

1. Commodity Boards,
2. Export Inspection Council,
3. Indian Institute of Foreign Trade,
4. Indian Institute of Packaging,
5. Export Promotion Councils,
6. Federation of Indian Export Organisations,
7. Indian Council of Arbitration,
8. Marine Products Exports Development Authority
9. Agricultural and Processed Food Products Export Development Authority,
10. India Trade Promotion Organisation

duty drawback system the exporters are reimbursed on tariff paid on the imported raw materials and intermediaries and central excise duties on domestically produced inputs which enter into export production. There are two types of drawback rates, viz., all industry rate applicable to a group of products and brand rate applicable to individual products not covered by the industry rate.

2) Income - Tax Concession

Besides the exemption or rebate on indirect taxes, a special fiscal treatement granted to exports comprises the income-tax concession according to which earnings from exports are either partially exempted from income-tax or taxes at a lower rate. Such income tax rebates have been provided to exporters in India since the early 1960.

3. Awards:

A number of awards have been institued to encourag exports and to recognise excellence in exports. There are separate awards for different categories of exporters. Awards are given on the basis of certain specified criteria such as dvelopment of market for products which has not been exported previously, substantial increases in exports, successful introuction of new products, product development, successful break through in foreign markets where conditions have been especially difficult etc.

Cash Compensatory Support (CCS), Import Replenishments license (REP), International Price Reimbursement Scheme (IPRS) and some other types of incentives are available for export promotion.

Production Assistance

Exports depend on exportable surplus and the quality and price of the goods. Government has taken a number of measures to enlarge and strengthen the Production base, to improve productive efficiency and quality of products and to make products more cost effective. Measures in these directions include making available raw materials and other inputs of required quality at reasonable prices; facilities to establish and expand productive capacity, including import of capital

goods and technology; facilities to modernise production facilities; provision of infrastructure for the growth of export oriented industries etc.

The Government of India have initiated the following policy measures to increase the domestic production in Export-Imports Policy of 1984-85.

1) Import facilities for actual users:

'Actual User' means any person who applies for or secures a license for the import of any or an allotment of an imported item required for his own use and not for business or trade in it. Following are the import facilities available to an actual user.

i) OGL:

Under the Open General Licence (OGL) an actual user is free to import all those raw materials, components, consumables and spares required for his manufacturing purposes and not included in the restricted, banned or canalised lists.

ii) Automatic Licenses:

In the case of items listed as restricted the exporter is allowed to import them for his annual requirements. He is granted automatic licences provided he submits an annual consumption certificate in the prescribed form duly certified by a chartered accountant for the previous two years.

iii) Import of spares:

Import of permissible spares not induded in restricted permissible list can be imported under Open General Licence. Import of emergency spares is allowed on the basis of an actual breakdown or imminent breakdown of production machinery and plant on production of a certificate from the executive head to that effect giving details necessitating emergent import. All indigenous manufactures of capital goods are allowed to import spares at 8 per cent of their preceding three years sales to provide warranty after sale services to the consumers. The maximum value of such a licence will be Rs. 25 lakhs.

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iv) Automatic Licences:

These can be utilised to single item upto 10 per cent licence value with a ceiling limit of Rs.2 lakhs. Any canalised items can also be imported upto 10 per cent of licence value with a single item. Ceiling of Rs.25,000. The import of both items should not exceed 10 per cent of the licence value.

v) Licence for Actual users:

Actual users who have no or small consumption of imported raw materials during the preceding two years and cannot apply for the automatic licence, can straightaway apply for supplementary licence.

vi) Free foreign exchange:

All imports licences can be obtained against free foreign exchange so as to procure imports on the most competitive rates.

2) Import Facility for Registered Exporters:

Registered Exporter is a person holding a valid registration certificate issued by an Export promotion council, Commodity Board or any other registering authority designated by the Government for the purpose of export promotion. The Government issues import replensihment licence to the registered exporters to provide to them imported materials required in the manufacture of the products exported. Two types of facilities are provided under this scheme. Import Replenishment for export already made and the other imprest licences for exports not yet taken place.

3) Import of Capital Goods:

A large number of capital goods have been put on open general licence (OGL). 93 items have been added in 1984-85. Import of second hand items has also been allowed under OGL. 201 items have been put on the OGL by long- term export-import policy 1985-88 announced an April, 12, 1985.

4) Import of Office Machines:

An exporter whose exports exceed Rs.25 lakh will be allowed to import necessary office equipments in a licensing period.

Marketing Assistance

A number of steps have been taken to assist the exporters in their marketing effort. These include conducting, sponsoring, or otherwise assisting market surveys and research; collection, storage and dissemination of marketing information; organising and facilitating participation in intenational trade fairs and exhibitions; credit and insurance facilities; release of foreign exchange for export marketing activities; assistance in export procedures; quality control and preshipment inspection; indentifying markets and products with export potential; helping buyer-seller interaction, etc. Some of the schemes and facilites which assist export marketing are mentioned here.

1. Market Development Assistance:

It is available for market and commodity researchers; trade delegations and study teams; participation in trade fairs and exhibitions; establishment of offices and branches in foreign countries; and grants-in-aid to EPCs and other approved organisations for export promotion. Export credit by commercial banks and approved corporative banks enjoyed a subsidy out of the MDA.

2. Foreign Exchange:

Foreign exchange is released for undertaking approved market development activities such as participation intrade fairs and exhibitions, foreign travel for export promotion, advertisement aborad, market research, recurement of sample and technical information from abroad.

3. Trade fairs and Exhibitions:

As trade fairs and exhibitions are effective media for promoting products, facilities are provided for enabling and encouraging participating of Indian exports and manufactrers in such events. The cost of participation is subsidiesed and the ITPO plays an important role in organising and facilitating participation in trade fairs and exhibitions. Besides the ITPO, some otherpromotional agencies also orgnise trade fairs. For example the MPEDA organises a seafood trade fair in India every alternate year.

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4. Export Risk Insurance:

As international business is related with different types of risks, measures have been taken to provide insurance covers. The Export credit Guarantee Corporation has policies covering different political and commercial risks associated with export marketing, certain types of risks associated with overseas investments and risks arising out of exchange rate fluctuations. Further, ECGC extends the export credit risks cover to the commerical banks. Marine Insurance is provided by the General Insurance Corporation and its subsidiaries.

5. Finance:

The Exim bank, Commercial banks and certain other financial institutions like specified cooperative banks provide preshipment and post shipment finance to exports. Some of these institutions also provide suppliers credit, including line of credit, to promote Indian exports. Export credit generally carries concessional interest rates.

6. Quality Control and Preshipment Inspection:

A number of steps have been taken by the government to improve the quality of exports and to ensure that only goods of appropriate quality are exported from the country. The Export (Quality Control and Inspection) Act empowers the Government to make necessary regulation in this respect.

7. Institutional Assistance:

Export marketing is assisted in different ways by a number of organisations like the ITPO, EPCs, Commodity Boards, Export Development Authorities such as the MPEDA and APEDA, IIFT, Indian Missions abroad etc.

8. India Brand Equity Fund:

Government of India initiated steps to establish an India Brand Eqity fund with the objective of promoting the 'Made in India' image abroad. It was also proposed to set up a Brand Acquisition Fund to help Indian Corporation big international brands put up for sale and build them up as Indian brands in the international markets.

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Financial Facilities

An exporter needs finance for processing, manufacturing, assembling, procuring, packing the goods for export. Preshipment finance is provided to the exporter to meet such requirements. After the shipment is made, exporter will have to give credit to the importer for an agreed period. Even if no credit is provided, the exporter will have to wait till the documents reach the importer and he makes the payment. It will take some more time before the advice of payment is finally communicated to the exporter. Post-shipment finance is provided to the exporter to meet his needs for funds during intervening period between the shipment of the goods and the receipt of payment therefor.

1. Pre-shipment Finance:

It is also called as packing credit. It provides the exporter with working capital between the time of the receipt of order and the time of shipment to arrange for production or procurement of goods. Pre-shipment finance is of particular importance to small-scale manufacturers and exporters who do not possess sufficient financial resources to meet the expenditure involved in the production of goods for export.

2. Revolving Credit:

If an exporter is well known to the banker and his past performance has been satisfactory, the banks are usually prepared to grant revolving. Pre-shipment credit in connection with successive deliveries. This implies that upon repayment of the first loan, the exporter is automatically granted a corresponding loan on the same terms. This procedure offers the advantages of saving time and costs as the original documents serve as a basis for extended credit.

3. Post-shipment Credit:

Post-shipment credits are intended to bridge the financial gap between the time of shipment of goods and the actual payment made. Post-shipment credits are also provided by commercial banks aganist the security of approved shipping documents tendered against letters of credit or otherwise. Post-shipment finance is also provided at a concessional rate.

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4. Forfeiting:

It enables an exporter to convert an overseas credit sale into a cash sale through the process of discounting of export receivable. The bill of exchange accepted by the imprter is surrendered to the forfeiting agency which pays him in cash after deducting a fee. The understanding is that the agency will collect the dues from the importer on expiry of the said period.

5. Buyer's Credit:

It is a means of financing an export transaction involving capital goods and equipment of large value or complete turnkey projects on long-term credit. A loan is extended by a bank or other financial institution in the supplier's country to the overseas buyer who is thus in a position to pay cash for the supplies received. Export financing facilities currently available:

Pre and Post shipment credits are now available in three different forms. These are.

1. Pre-shipment credit in Rupees followed by post-shipment credit in Rupees;
2. Pre-shipment credit in Rupees followd by discounting of export bills abroad; and
3. Foreign currency denominated Pre-shipment credit, followed by rediscounting of export bills abroad.

9.4 ROLE OF EXIM BANK

On 1st January 1982, the Export Import Bank of India was set up an Act of Parliament. It is a public sector bank, an apex banking institution in export financing, intended to provide financial assistance to exporters and importers and to function as the principal financial institution for coordinating the working of other intitutions engaged in financing of foreign trade. It started functioning form March 1982. It provides refinance facilities to commercial banks and financial institutions against export financing activities.

The authorised capital of the Exim bank is Rs. 200 crores which can be increased to Rs. 500 crores. Initially its paid up capital was Rs.50 crores which

has been increased to Rs.147.5 crores, fully subscribed by the Government of India. The Bank can raise its resources from the following:

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1. From the open market by the issue of bonds and debentures.
2. From the Government of India.
3. From the RBI from its National Industrial Credit Fund.
4. From the International Markets.

The following are the major objectives of the exim bank.

1. To finance exports from and imports into india of goods and services.
2. To finance joint ventures in foreign countries particularly in third countries.
3. To finance exports of consultancy and related services.
4. To finance import and export of machinery and equipment on lease basis.
5. To provide loans to an Indian party so as to enable it to contribute in the share capital of a joint venture in foreign countries.
6. To finance export-oriented industries in India.
7. To conduct export market studies.
8. To undertake limited merchant banking functions such as under writing of stocks, shares, bonds of debentures of companies to parties in connection with export and import.

9.5 FUNCTIONS OF EXIM BANK

1. Direct financial assistances to exporters:

Exim Bank assists to Indian exporters, extending term credit to overseas importers who purchase Indian capital goods, i.e., machinery and equipment. The rate of interest on loan advanced under the scheme is 9%

2. Overseas Investment Financing:

Exim Bank assists Indian exporters in the promotion of joint ventures set up abroad and contributes towards equity capital of the projects. The rate of interest on loan advanced under the scheme is 12.5%.

3. Pre-shipment Credit:

Exim bank finances the Indian exporters for the purchase of raw materials and other inputs required to produce capital equipment that is to be exported.

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4. Lines of Credit:

Exim Bank finances overseas financial institutions, foreign Government and agencies to enable them to lend term loans to finance import of Indian capital goods. The buyer would be in the country where such relenders are located.

5. Overseas buyer's Credit:

This credit facility of Exim Bank is available to overseas buyers to enable them to pay cost of capital goods important from India on deferred terms.

6. Refinance of Export Credit:

Exim Bank refinances the commercial banks in India who are authorised to deal in foreign exchange, the advances offered by them to the Indian exporters of capital goods. This refinace facility to banks is available only when the individual export contract is not more than Rs.10 million.

7. Export Bills Rediscounting:

Commercial banks in India who deal in foreign exchanges are authorised to rediscount the export bills. It enables banks to find post shipment credit extended to Indian exporters.

8. Technology and Consultancy Services:

Exim Bank gives this facility to an Indian exporter who is engaged in the trade of exporting consultancy services and technology to extend term credit to importer overseas.

9. Relending Facility:

Exim Bank enables overseas banks to make available term finance to importers of Indian Capital goods, on rate of interest at 9.25% p.a.

10. New schemes:

Exim bank has started three new lending schemes to Indian exporters during the year.

i) Finance for Export Oriented Units,

ii) Finance for deemed exports.

iii) Export Bills (ssi) Rediscounting Scheme

The exim bank has established contracts with international financial institutions and export credit agencies to cofinance the projects which can absorb Indian exports. It has initiated an information service which provides advance information to Indian exporters on projects to be financed by IBRD or ADB and the scope of business job opportunities in such projects. Exim bank has set up three foreign offices Abidjan (ivory coast), Washington D.C and Singapore to identify projects and product export opportunities funded by multlateral agencies. It has also organsised a specialist cell at Bombay to co-ordinate operations with overseas offices to provide advisory and financial services to Indian exporters planning to secure all larger share of projects. It ahs launched a lending programme to support exports from small scale industries. The S.S.I. Exports bills are rediscounted under this scheme.

NOTES

FUNCTIONS OF EXIM BANK:

1. Direct financial assistances to exporters,
2. Overseas Investment Financing,
3. Pre-shipment Credit,
4. Lines of Credit,
5. Overseas buyer's Credit,
6. Refinance of Export Credit,
7. Export Bills Rediscounting,
8. Technology and Consultancy Services,
9. Relending Facility
10. New schemes

9.6 EXPORT PROMOTION COUNCILS

Export promotion councils advise the government regarding current developments in the export sector and measures necessary to facilitate future growth in exports, assist manufacturers and exporters to overcome the various constraints and extend to them the full range of services for the development of market overseas. The councils also perform certain regulatory functions as they have the power to de-register defaulting exporters.

The council also conduct market surveys, assists in product development, sponsors trade delegations and guides new comers in the identification of potential markets. The council has established a number of overseas offices abroad. Some councils publish promotional brochures in many languages for specific products and countries. They also publich directories to help foreign buyers to locate suppliers in India. They often organise awareness seminars and arrange open house meets with authorities. Some councils provide an opportunity to members to advertise on their internet on their web sites.

There are 19 Export Promotion Councils covering the following products: Apparels Basic chemicals; Pharmaceuticals and cosmetics; chemicals and Allied products; Carpet; Cashew; Cotton Textiles; Electronics and Computer Software; Engineering; Gems and jewelry; Handicrafts; Handlooms; Leather; Overseas Construction; Plastics and Linoleums; Shadlac; Silk; Synthetic and Rayon Textiles; Sports Goods and Wool and Woolens. These councils are non-profit making limited companies registered under the Companies Act. The Ministry of commerce provides cessary assistance in relation to their programmes of work.

NOTES

True or False:

1. An exporter needs guidence and assistance at different stages of his export effect. (true/false)
2. The scheme of duty drawback is not designed to avoid the incidence of commodity taxes such as excise duty and customer duties. (true/false)
3. Exports depend on exportable surplus and the quality and price of the goods. (true/false)
4. A nymber of steps have been taken to assist the exporters in their marketing effort. (true/false)
5. An export transation involving capital goods and equipment of large value or complete turnkey projects on long - term credit. (true/false)

Answer:

1. True 2. False
3. True 4. True
5. True

Some of the important activities of the Export Promotion Councils are mentioned below:

1. to apprise the Government of the exporters problems;
2. to keep its members posted with regard to trade enquiries and opportunities;
3. to help in exploration of overseas markets and identification of items with export potential;
4. to render assistance on specific problems confronting individual exporters;
5. to help resolve amicably disputes between exporters and importers;
6. to offer various facilities to exporters in line with other exporting countries.

9.7 KEY TERMS

* Inspection
* Tax concession
* Forfeiting
* Relending facility

9.8 SUMMARY

Export promotion, Organisational setup, incentives, role of exim bank, functions of exim bank and export promotion councils are dealt in with details in this chapter.

9.9 MODEL QUESTIONS

Section - A

1. What are the Autonomous Bodies which are functioning for the export promotion?
2. Explain Incentives.
3. What are the role and function of Exim Bank?

Section - B

1. What are the import facilities for actual users?
2. Describe export promotion councils.
3. What are the financial facilities?

LESSON - 10

NOTES

EXPORT PROCEDURES

STRUCTURE

10.0 Introduction

10.1 Unit Objectives

10.2 Export Procedure

10.3 Important export documents

10.4 Key Terms

10.5 Summary

10.6 Model Questions

10.0 INTRODUCTION

An exporter should get himself registered by making an application on the prescribed form with an Export Promotion Council related to his main product line of export. If there is no EPC, registration may be done with the Regional Licensing Authority concerned. Once an exporter has been registered, the registration shall remain valid for 5 years. Registered exporters have to submit quarterly reports about exports made by them.

10.1 UNIT OBJECTIVES

After reading this unit you should be able to understand:

* The export procedure
* The importance of export document

10.2 EXPORT PROCUDURE

Every person importing or exporting goods is required to obtain an I & E code number from the Regional Licensing Authority concerned. Customs authorities shall not allow clearance of goods to an importer who does not posses a valid I & E cod number.

An export order to be processed to meet the requirements of materials required by the importers. The export order must be processed as expeditiously as possible so that the buyers can receive the materials on time, as per their delivery schedules and also conforming to the specifications stipulated by them.

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First Step

The exporter should scrutinise the export order with reference to the terms and conditions of the contract. This is the most crucial stage. All subsequent actions and reactions of the export contract. It should be ensured that the contract has been entered into in accordance with the prevalent export promotion polices of the country and the foreign exchange regulations. The export order must specify the mode of payment in unmistakable terms such as letter of credit, documents on payment. Documents against Acceptance etc. The export order should be confirmed by the exporter only after the terms and conditions of the L/C have been found to be in order.

Second Step

As soon as the export order has been confirmed, preparations for the despatch of goods are started. A delivery note (induplicate) is sent to lthe factory mnager. This note should contain the description of the goods as has been given in the export order, along with a copy of the instructions given by the importer. The dater by which the necessary formalities must be competed, the requisite time margins to be given and the philpment must be clearly intimated to the Factory Manager.

Third Step

Immediately the goods have been manufactured, the clearance of the Excise Authorities has to be obtained. This can be done in two ways. The first way is to make payment of the excise duty at time of removing the export consignment from the factory and file a claim for rebate of duty after exportation of goods. The second way is to secure clearance under Bond. This involves entering into a bond under such terms and conditions as the collector of customs may decide. Then AR. 4 form is to prepared in six tuplicate. They are presented to the Range Superintendent, Central Exercise, who after necesssary formalities signs all the copies. The original duplicate and six tuplicate copies are given back to the exporter; the triplicate copy is sent to the maritime commissioner or Asst.commissioner incharge of refused etc. the fourth copy is sent to the chief Accounts Office and the remaining copy is kept by the office of the Range Superintendent. An inspector is deputed by the inspection agency to inspect the export consignment. If the goods confirm to the prescribed specifications, an inspection certificate is issued. If the goods are despatched to the post of shipment by railway. Railway Receipt is obtained.

Fourth Step

After the goods have been despatched to the port town, the works manager sends a 'despatch advice' to the Export Department. Soon after, an application is sent to the insurance company for marine insurance cover. The insurance policy is obtained in duplicate. There after the Export Department sends the documents to its clearing and forwarding agents, along with detailed instructions.

Fifth Step

The clearing and forwarding agent takes delivery consignment from the railways and arranges its storage in the ware house. Thereafter he prepares the requisite copies of the shipping bill. The most important particulars which are to be filled in the shipping bill are: 1) consignee's name and address, 2) Vessel's name, 3) Rotation 4) Agents' name, 5) Colour, 6) Port of discharge, 7) Final destination, 8) Exporter's Name and address, 9) Number of packages, 10) Marks and numbers, 11) Gross net and far weight, 12) Description, 13) F.D.B value 14)Country of origin, 15) Code number of the goods. 16) Number and date of the Exchange control GR form, 17) AR-4 number and date, where necessary and 18 Export Licence number, where necessary.

Sixth Step

After the Shipping Bill has been passed by the customers. the clearing and forwarding agent presents the port. Trust copy of the shipping Bill the port trust copy of the shipping Bill to the shed superintendent of the Port Trust and obtains carting order for bringing the export cargo in the transit shed for physical examination. Thereafter, in the case of shed cargo, the Dock challan is prepared.

Seventh Step

The passed shipping Bill including the Dock Challan, where submitted, Cart Ticket or Boar Note are carried by the Authorised Licensed Sir Dar accompanying the goods for making the cargo ready for shipment after finally being passed by the commissioners and the customs shed staff. The Boat Note and the shipping Bill are then registered with the customs for which a pass is issued.

NOTES

Eighth Step

The ship's export clerk calls for cargo from shed or boat and after loading prepares the Mate's Receipt. The Make's Receipt is signed by the ship's captain of his agent. It is then delivered to the port commissioner's shed. The clearing and forwarding Agent pays the port charges and takes delivery of the Mate's Receipt. The Mate's Receipt is presented to the shipping company and requisite number of copies of the Bill of lading are obtained by the clearing and forwarding agent.

Ninth Step

The clearing and forwarding agent forwards the following documents to lthe exporter: 1) Full set of Bill of lading, clean on Board, together with the required number of Non-negotiable copies; 2) Export promotion copy of the shipping Bill; 3) Copies of customs-allotted invoice, 4) AR. 4 form (duplicate copy); 5) Original Export Order; 6) Original letter of credit and 7) Railway concession form, duly attested by the customs.

Tenth Step

After receiving the necessary documents from the clearing and forwarding agent, the exporter conspletes the remaining formalities. Then the needed documents are presented to the negotiating bank. The processing at the negotiating bank is done in the proper manner. All the documents are scrutinised wtih reference to the terms and conditions of the original letter of credit. Thereafter, a set of the documents is transmitted to the bank or of the importer. Then only the importer can take delivery of the consignment on the basis of the documents. The negotiating bank transmits the duplicate copy of the GR form to the Exchange Control Department of the Reserve Bank of India. The Original Copy of the Bank cetificate, along with attested copies of the commercial invoice, is returned to the exporter. The duplicate copy of the Bank Certificate is forwarded to lthe office of the Director General of Foreign trade in the area. The exporter is paid the value of the export consignment against the documents.

10.3 IMPORTANT EXPORT DOCUMENTS

Export documentation plays a vital role in international marketing as if facilitates the smooth flow of goods and payments there of across national frontiers. A number of documents accompany every shipment. These documents must be

properly and correctly filled. Export documentation is, however complex as the number of documents to be filled in is large, so also is the number of concerned authorities to whom the relevant documents are to be submitted. Moreover, documents required differ from country to country. In correct documents may lead to non-delivery of goods to the importer.

Therefore, it is advisable to take the help of shipping and forwarding agents who will obtain and fill our the documents correctly as well as arrange for transportation. But every exporter should have an adequate knowledge about export documents and procedures. Following are some important documents to be prepared by the exporters.

Commercial Invoice

This is the basic document in an export transaction. It contains all the information which is required for the preparation of all other documents. He is, thus, a document of contents. The date, name and address of both buyer and seller, name of the shipping vessel and the port of debarkation should also lbe specified. There is no standard form of commercial invoice. The exporter was to design his own form. Some countries, however, prscribe their own forms, In such cases, the exporter has necessarily to use the form prescribed by the importing country. Some of the invoices prescribed by the importing countries are: 1) combined certificate of origin and value; 2) Consular invoice; 3) Legalized Invoice ; and 4) customs invoice.

GR Form

This form has been prescribed by the Reserve Bank of India under PERS to ensure that the foreign exchange receipts in respect of exports are repatriated to India. This has to be prepared in duplicate. Both of the copies have to be submitted to the customs authorities at the port of shipment. Customs, authorities will certify the value declared by the exporter on both the copies of the GR form and will record the assessed valued. They will retain the original directly. They will return the duplicate copy which is submitted to the negotiation bank along with other documents after shipment of the goods. The negotiating bank sends the duplicate copy to the RBI after the export proceeds have been realised.

NOTES

True or False:

1. An export order has to be processed to meet the requirements of materials required by the importers. (true/false)
2. The exproter should scrutinise the export order with refference to the terms and conditions of the contract. (true/false)
3. Export documentation plays a vital role in international marketing as it facilitates the smooth flow of goods and payments. (true/false)
4. An exporter must also putup the marine insurance policy as a collateral security when the gets an advance against his bank credit. (true/false)
5. Bill of landing is a document which is issued by the shipping company acknowledging that the goods. (true/false)

Answer:

1. True 2. True
3. True 4. True
5. True

Letter of Credit

Letter of credit, popularly known as L/C, is by far the most important single document is international trade. It forms the basis of a very large volume of world trade. Through the instrument of letter of credit, the promise to pay usually made by the overseas importer is substituted by the promise to pay by his bank. It is this characteristic of the letter of credit which gives the exporter great security.

Bill of Exchange

When a draft is drawn on a foreign bank, it is known as a foreign draft or bill of exchange. A bill of exchange is a means of collecting payment from the foreign buyer through the banking channel. It is also a method of extending credit.

Shipping Bill

This is a customs document. There are three types of forms of shipping bills, namely: 1) Shipping Bill for free goods, 2) Dutiable shipping Bill, and 3) Duty Drawback shipping Bill. The shipping Bill must be prepared according to the category of the export goods.

Marine Insurance Policy

It is the basic instrument in marine insurance. A policy is a contract and a legal document. Its principal function is to serve as evidence of the agreement between the insurer and the assured. The policy must be produced to press a claim in a court of law. An exporter must also put up the marine insurance as a collateral security when he gets an advance against bank credit.

Bill of Lading

Bill of lading is a document which is issued by the shipping company acknowledging that the goods mentioned there in have been placed on board the ship and an undertaking that the goods in like order and condition as received will be delivered the consignee, provided that the freight specified there in has been duty paid.

Airway Bill

Air transports is widely used for moving valuables or urgently required goods. The document of transport used is an airway bill. It is non-negotiable; so it does not carry the same validity as a bill of lading for sea transport.

Combined Transport Document

It is document of carriage relating to multimodel transport. Almost every consignment has to be transported by more than one means of transport, particularly since the advent of container transport. The combained transport document of through container allows for this covering the movement of goods from start to finish.

10.4 KEY TERMS

* Letter of credit
* Commercial Invoice
* Description

10.5 SUMMARY

Export procedure, important export document, various stages are dealt with in details in this chapter.

10.6 MODEL QUESTIONS

Section - A

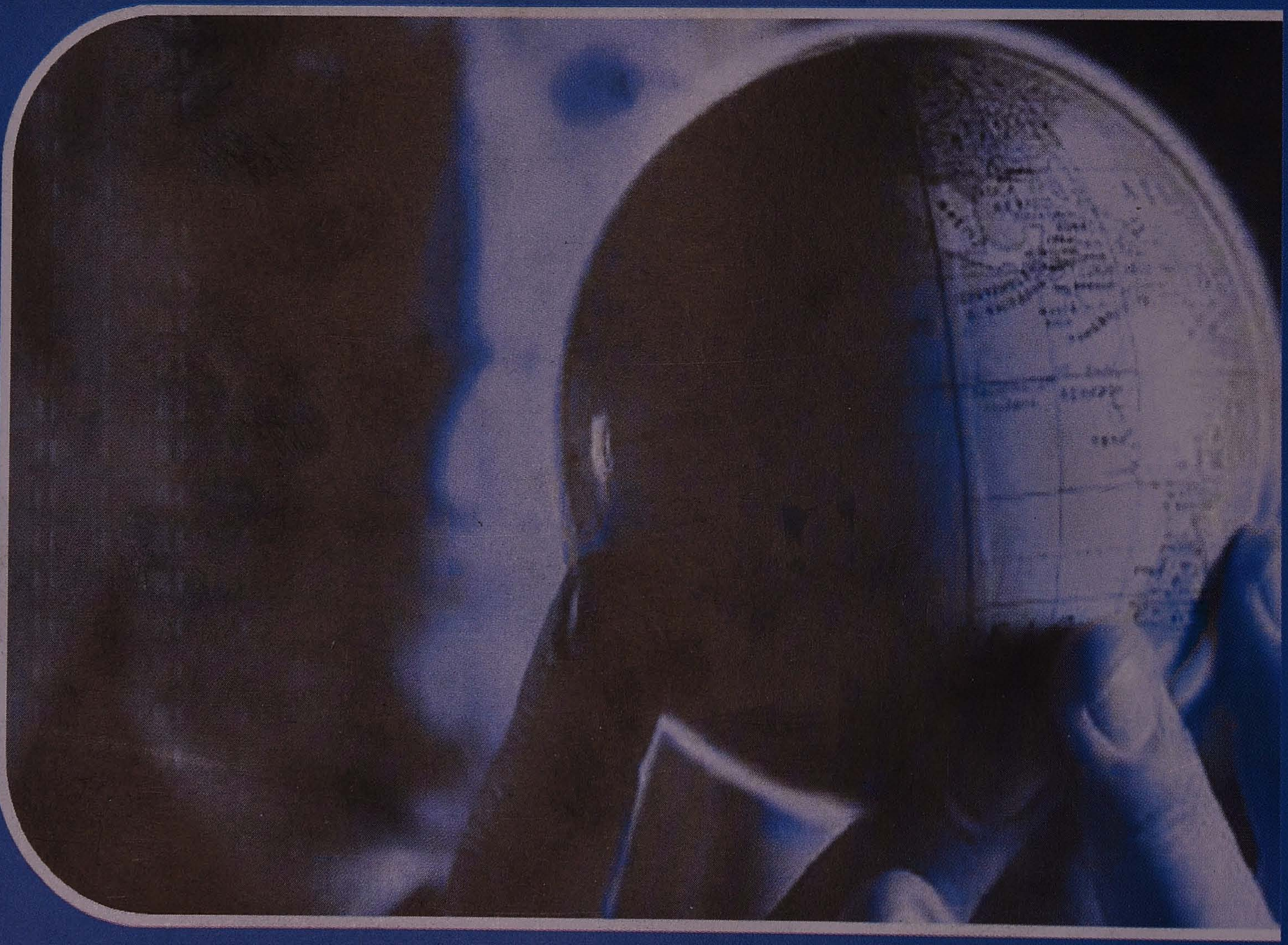
1. Explain the ten steps of Export Procedure
2. What are the important Export Documents?

Section - B

1. Write short notes on:
   (i) Fifth step & Tenth step of Export Procedure
   (ii) GR Form & Letter of Credit

NOTES

IMPORTANT EXPORT DOCUMENTS:

1. Commercial Invoice,
2. GR Form,
3. Letter of Credit,
4. Bill of Exchange,
5. Shipping Bill,
6. Marine Insurance Policy,
7. Bill of Lading,
8. Airway Bill,
9. Combined Transport Document

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5 EURO
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20
50